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# ***CENTRAL EURASIA***



# FBIS Report: Central Eurasia

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27 January 1994

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## ARMENIA

### Ter-Petrosyan on Republic's Political Situation, New Constitution

944K0579A Moscow NEZAVISIMAYA GAZETA  
in Russian 5 Jan 94 p 3

[Article by Armen Khanbabayan: "Peace, Light, and a New Constitution, the President Promises in 1994"]

[Text] Levon Ter-Petrosyan's New Year's address was reminiscent more of a political speech than a holiday address. The president declared that the current extremely difficult situation left little room for optimism. But the situation would deteriorate even further unless the war in Karabakh were ended and the problem of the blockade resolved. According to the president, certain opportunities for the establishment of a long-term and firm armistice appeared at the end of the past year. Yerevan and Stepanakert agreed to the peace-making initiatives of the CSCE and Russia. Azerbaijan rejected these initiatives, attempting to settle the problem militarily; nonetheless, the Armenian leader believes that before the end of the present year, Baku will have reached the conclusion of the futility of military pressure and of the need for compromise. According to Ter-Petrosyan, there is now hope that the year that has just begun will be one of peace.

The president termed the adoption of a new constitution a most important factor of the preservation of domestic political stability, expressing the hope here that it would be possible to adopt the Basic Law this year also.

Levon Ter-Petrosyan called the third task whose accomplishment in the very near future is inevitable the achievement of energy independence. The government is hoping for a resumption of the operation of the Armenian Nuclear Electric Power Station. As the president said, preliminary expert evaluations are promising, and there are all the prerequisites for the nuclear power station coming on stream as of the start of next winter.

If all that was promised in Ter-Petrosyan's address to the nation really comes to pass, 1994 could be considered a success. But in reality, circumstances could shape up somewhat differently. The termination of Russian assistance and regional neighbors' abrupt obstruction on the question of a resumption of the operation of the nuclear power station could put back fulfillment of the dream of energy independence for an indefinitely long period of time. It would be extremely difficult under present conditions to cope in isolation with this technically very complex task, which requires, in addition, considerable foreign currency investments. The adoption of a new constitution could drag on also, inasmuch as parliament is not disposed to rush this matter—this would mean, after all, early parliamentary elections, about which a large part of the people's elect thinks with fear and trembling.

It is possible that the hopes for peace could be realized, it is true, but not, most likely, thanks to the efforts of the international community of Russia or Iran, of which Armenia recently requested mediation in the conflict. The situation in Karabakh today is reminiscent of the situation that took shape following Abulfaz Elchibey's assumption of power. At that time the Azerbaijani leader succeeded, using Russian mercenaries, in breaking the resistance of the inadequately trained self-defense detachments and in occupying roughly half the territory of the Nagorno-Karabakh Republic. But the people of Karabakh held their ground and in time not only retrieved what they had lost, but also settled many questions of their security, pushing back the front a considerable distance from Stepanakert and other localities of their republic. Major defeats destabilized the situation in Baku and played a decisive part in Elchibey's departure from the political arena.

Today Geydar Aliyev is continuing to increase the pressure on Karabakh. In two weeks of fighting, Azerbaijani formations reinforced by detachments of Russian mercenaries and Afghan mujahedin have already lost over 700 men killed and a considerable quantity of armor. But they have yet to accomplish a single tactical assignment in a single sector of the front. And this despite the vigorous activity of guard detachments composed mainly of Chechens executing retreating forces, both Azerbaijanis and Russian mercenaries. In addition, the savage pre-New Year's shelling in the border areas of Armenia have provoked the increased offensive activity of the Karabakh people themselves, and the situation has in places today once again begun to shape up to the disadvantage of the Azerbaijani Army, which again runs the risk of losing the strategic initiative. Such a development of events in the future could represent a great danger for Geydar Aliyev. An endeavor to escape the fate of his predecessor could force the present Azerbaijani leader to begin to move toward compromise. If this does happen, it will not, however, be before spring, when it will finally be clear that on this occasion also the blockade and the severe winter difficulties have not changed the situation in Armenia.

### Republic's Marketplace Faced With No Money, Closed Stores

944K0559A Yerevan RESPUBLIKA ARMENIYA  
in Russian 2 Dec 93 p 1

[Article by Ashot Aramyan: "Further and Further Away From Harmony: 'Empty Pockets—Empty Stores'—Such Is the Current Situation in the Consumer Market"]

[Text] The situation in the republic consumer market is, to be honest, less than attractive. The lack of sufficient resources in Russian rubles and other foreign hard currency is beginning to show. Many merchants, having earned these days their first thousands of drams, have encountered difficulties converting them to other currency and....closed their stores. Elbow-shoving queues form in state-owned stores, where the supply of goods is



minimal. People are indignant that butter priced at 25 drams and sugar at 10 drams have been designated for unrestricted sale rather than being sold by rationing coupons. Let us point out, however, that these complaints are unfair, since the available quantity of these goods clearly was not enough to distribute them to the entire population through coupons. In some instances, however, both store employees and members of law enforcement also violate the rules of trading, creating chaos and confusion in the lines. This is doubly impermissible, since right now backing up the dram with available goods is a political as well as economic action.

There also is a clear discrepancy, imbalance, between the official exchange rates of currencies set by the Central Bank (for instance, 15 drams for one U.S. dollar) and the "black market" rates, which are, it should be pointed out, more realistic (25-30 drams for a dollar). The banks, which are experiencing a shortage of foreign currency, set restrictions on sales of hard currency, trying to artificially hold down its exchange rate and not allow the dram to weaken. Wherever hard currency is sold at the official rate, colossal lines form immediately.

Meanwhile, and precisely for the aforementioned reasons, prices rise continuously. While during the first days of the money exchange, Magna cigarettes could be purchased for 5 drams, and then later for 8-10 drams, now at this price, if one is very lucky, one can count only on Turkish cigarettes of a quality that is lower by an order of magnitude. Butter went from costing 45 drams a kilogram to 80-120 drams, and sugar—from 15 to 30.

If the difficulties with the internal convertibility of the Armenian currency continue, before the year is out the republic may get its third bout of hyperinflation in so many months, empty store shelves, and total impoverishment of the population.

With all the shortcomings in organizing the sales of butter and sugar reserved for the state trade network, I think that prices for these products will not gallop for a while. The government also should take immediate steps to organize pre-New Year sales of the greatest number of goods possible by coupons: this could bring down panic buying, and reduce the intense pressure on the consumer market.

Under socialism, the cheerless scheme of the consumer market workings looked this way: there is money but no goods. At the initial stage of a transition to market relations, the picture changed dramatically: the population no longer has any money, while everything one can imagine in one's most wonderful dream has now appeared in the stores at high prices. Now the situation has become even more dramatic: empty pockets and empty stores. Are we moving further away from harmony?

### Foreign Ministry Official Views Relations With CIS

944K0559B Yerevan RESPUBLIKA ARMENIYA  
in Russian 9 Dec 93 p 1, 3

[Interview with Ambassador Plenipotentiary and Extraordinary Arman Kirakosyan, a first deputy minister of foreign affairs of the Republic of Armenia, by unidentified RESPUBLIKA ARMENIYA correspondent; place and date not given: "Relations Within the Framework of the CIS Are Among Our Foreign Policy Priorities"]

[Text]

[RESPUBLIKA ARMENIYA] Mr. Kirakosyan, among the foreign policy issues that fall within your job responsibilities, relations with CIS countries are of considerable importance. From this standpoint, our readers would be interested to know how our relations with these countries are organized and developing, first and foremost with Russia, since we have to acknowledge that any event in Russia in one way or the other reverberates in the Republic of Armenia, especially affecting its internal and foreign state of affairs.

[Kirakosyan] That is, of course, a very broadly defined question. Nevertheless, I will try to provide an exhaustive answer and, naturally, I will start with the Russian Federation.

Today, when international relations are in a period of transition and a trend is in the making toward the creation and development of more new unions, including a broad process of cooperation on a mutually beneficial basis, Armenia assigns a priority to Russia in its foreign policy. In its relations with the countries in the region, the Russian leadership is unquestionable.

Now the period of defining the positions of the two states with respect to each other seems to be behind us, and we finally have come to a mutual understanding. I especially want to draw your attention to the fact that we have to approach the process of bilateral relations between Armenia and Russia seriously.

In the current situation, it is important to coordinate foreign, economic, social, military, and domestic policy in the direction of leading the republic out of the economic and energy crisis, which will ensure external and internal political equilibrium and a successful course of economic transformations.

In our relations with the Russian Federation, we base our actions first and foremost on the national and state interests of Armenia, which are aimed at economic development on a mutually beneficial basis.

Diplomatic relations between the Russian Federation and the Republic of Armenia were established in April 1992. President of the Russian Federation B. Yeltsin on 26 May 1992 appointed V. Stupishin as ambassador plenipotentiary and extraordinary in Armenia. Before



that, on 29 December 1991, an agreement between Armenia and Russia, "On Friendship, Cooperation, and Mutual Security," was signed in Moscow.

The Republic of Armenia has trade and economic agreements with the Russian Federation for 1992-1993. In addition, we have signed more than 30 other agreements with the Russian Federation, and a number of projects are in the development stage. All of this overall must help to create favorable conditions for market relations between Armenia and Russia, with the aim of preserving and developing existing economic ties, drawing on already signed agreements on coordinating the actions in the development of the fuels and power generation sector, industry, transportation, communications, and so on.

Thus, we can say with certainty that the Republic of Armenia does not have as intensive and comprehensive ties with any foreign country as it has with the Russian Federation. It is quite obvious that in the Republic of Armenia's foreign policy, Russia occupies an important place. And this is logical, since it reflects the trends and traditions that exist between our countries and peoples.

Now let us look at the factors that stand in the way of developing Armenian-Russian relations.

For a variety of reasons, economic ties between the Republic of Armenia and the Russian Federation are currently noticeably disrupted; nevertheless, fluctuations in the political and economic life of Russia echo in our republic. The latest confirmation of this is freeing prices for bread and fuel, an unexpected exchange of the USSR State Bank and the Central Bank of the Russian Federation banknotes of 1961-1992 issue, and so forth.

One should assume that the existing close economic ties between the two states are a long-term factor, which is to a considerable degree necessitated by the absence of appropriate alternative infrastructures, and this circumstance must be taken into account in developing the foreign policy course of the Republic of Armenia.

Alas, we have not yet made the effective steps that need to be made in the sphere of developing relations with the Russian Federation. A Republic of Armenia Embassy still has not been opened in Moscow, which, naturally, would be appropriate for the current stage of development of bilateral relations. The current form of Armenian representation in Russia corresponds only to a small extent to international norms and logic-dictated relations existing between independent states. Its functional disparity currently does not afford us the ability fully to conduct relations with embassies of other countries in the world, the number of which in Moscow equals the number of these countries' representations in the United Nations. Such things as monitoring the implementation of previously signed agreements and treaties, as well as the analysis of promising projects aimed at further deepening and expansion of Armenian-Russian relations, not to mention the enormous opportunities to stimulate the republic's economy, remain

outside the activities of the permanent representation. Creation of consular representations of the Republic of Armenia in important key points of the Russian Federation also is progressing slowly. Moreover, a wrong trend is developing in the matter of forming representations: we base our decisions on the assumption that representations are needed first and foremost in places where the greatest number of Armenians live, so that we can resolve their problems in Russia. This undoubtedly is an important task. We should not forget, however, that the main task of representations is not in working with the [Armenian] community—it is in facilitating the development of relations between the Russian Federation and the Republic of Armenia, in particular, in those areas where the community has a certain economic, political, and social potential.

Speaking of the need for the fastest possible creation of legal and treaty foundations for multilateral cooperation, which could have a decisive influence in leading us out of the economic and energy crisis, we should pay attention to the actual ratification by our Supreme Council of a number of bilateral agreements and treaties. Among them is a fundamental document—the agreement between the Republic of Armenia and the Russian Federation "On Friendship, Cooperation, and Mutual Security."

In our opinion, the next factor is the influence of the Russian Federation, which, both within the framework of undertakings of the UN and CSCE and by its direct participation, could play a perceptibly positive role in the resolution of the Karabakh crisis. The deepening and development of comprehensive relations between the Republic of Armenia and the Russian Federation may help to establish good-neighbor relations between Armenia and the countries with which it shares borders.

As to the CIS' inter-state structure, almost all its members, including the Russian Federation and the Republic of Armenia, want a qualitatively new level for the CIS, a single economic and cultural space.

In this context, development of relations with all CIS countries is as important as of those with Russia. This should include both restoration of economic, social, and cultural ties and development of relations with the Baltic countries.

[RESPUBLIKA ARMENIYA] How are our relations developing with the countries of the East-European part of the Commonwealth—Ukraine, Belarus, and Moldova?

[Kirakosyan] The absence of active relations with these states also is the result of our rather inflexible approach. However, lately the state of affairs has improved markedly in this respect, too. For instance, in February of this year we opened a diplomatic representation of the Republic of Armenia in Kiev; we are preparing a visit of the Armenian president to Ukraine, where a large package of important documents will be signed.

Finally, diplomatic relations have been established with the Republic of Belarus. We will soon set up a diplomatic representation in Minsk; an interim charge d'affaires of the Republic of Armenia has been appointed to the Republic of Belarus. We are working on mutually beneficial treaties and agreements.

"Armenia-Ukraine" and "Armenia-Belarus" societies have been established in Yerevan; they are engaged in strengthening friendly ties between our peoples.

We still have a long way to go with respect to Moldova. We have established close trade and economic relations with it. However, for a variety of reasons, we cannot yet speak of comprehensive relations.

[RESPUBLIKA ARMENIYA] Mr. Kirakosyan, in your opinion, does not the new Economic Union hamper the independent development of CIS countries?

[Kirakosyan] Meetings among the prime ministers of three Slavic republics—the Russian Federation, the Republic of Belarus, and Ukraine—have taken place lately; these meetings were marked by active discussions. As a result of negotiations, a joint statement has been signed on urgent measures with respect to acceleration of economic integration.

In connection with this agreement, opinions have been voiced that the CIS has not lived up to expectations, and that by taking this step, the stronger Slavic states are trying to shed the less developed members.

Commenting on the results of this meeting, I can say that this is a logical step which does not contradict the idea of the CIS. Moreover, this step was taken further to its logical conclusion by the three Slavic states in Moscow, at the conference of heads of CIS states (which took place in the end of September of this year), where an agreement was signed to create the Economic Union, whose purpose is to serve only one practical goal—creating a single market. Such a union has become a necessity, since the former USSR republics can sell most of their output only to one another, and in many instances can produce the final product only with the help of one another.

The creation of such a union is logical; it is happening in other regions of the world as well and does not in any way hamper the independent development of CIS countries or keep them from establishing and strengthening independent economic relations with some or other country.

This union in the future envisages a great volume of work both inside the CIS and in bilateral relations. In particular, the parties to the agreement must ensure the compatibility of taxation systems, establish visa-free travel, and so on.

Accepting the necessity of unified guiding principles of economic relations, they expressed a willingness to bring national legal codes into conformity with the criteria of the aforementioned agreement and international law. It

is also envisaged to create joint bodies of administration, while decisions affecting the Economic Union will be adopted only on the basis of consensus.

[RESPUBLIKA ARMENIYA] What is your appraisal of our relations with Transcaucasus states?

[Kirakosyan] The Transcaucasus region is in the center of special attention. It is no secret that the security and well-being of Armenia and the Armenian people depend to a large extent on the situation that exists in this region, on the correlation of different forces and interests, relations with Georgia, Azerbaijan, Turkey, and Iran. Bilateral relations with neighboring countries are important. In this respect, it is hard to overestimate the place and role of Georgia.

We need today to rethink Armenian-Georgian relations from the standpoint of national and state interests. First of all, we should not forget about the more than half-million-strong Armenian diaspora in Georgia, whose fate concerns us today. We hope that the current authorities in Georgia will conduct a farsighted policy of goodwill with respect to their citizens of Armenian descent.

Much has been said about vitally important communications that go through the territory of Georgia. I only want to add that all transit shipping, including petroleum products and gas, is being done on a mutually profitable basis. Unfortunately, it is for this reason that the explanation for the frequent robberies on transportation and the explosions on the gas pipeline most likely lies in the instability and crime-engendering situation inside Georgia than in its "ill intents." When the region becomes relatively stable, an equal level of our countries' economic development will finally allow us in the future to cooperate in the sphere of joint production and distribution of products and may in the future lead to the desired economic integration.

In particular, a serious legal basis has been established for us to develop our relations along civilized lines. As is known, during the meetings of heads of our states and governments (in May and June of this year), about 30 treaties and agreements were signed, including a Treaty of Friendship, Cooperation, and Mutual Security; an Inter-State Declaration of Economic Cooperation; agreements on transit freight shipping, as well as on cultural, scientific, and humanitarian cooperation; and other documents. Each party set up government commissions to coordinate their implementation.

The continuing political instability; the deepening of Abkhazian-Georgian confrontation; and a certain polarity of opinions regarding the ways to settle it—this is how, unfortunately, we have to characterize the existing situation in Georgia.

In these extreme conditions, several months ago an Armenian Embassy was opened in Georgia, whose task is to serve the cause of further development of Armenian-Georgian relations. There are four diplomats working



there, headed by an interim charge d'affairs. A number of organizational issues with respect to ensuring normal work of the diplomatic representation have been resolved. The embassy was able to launch active work on resolving the tasks set for it; close relations have been established with the bodies of authority in the republic, as well as with diplomatic representations accredited in Georgia. They inform the Republic of Armenia's Ministry of Foreign Relations in a timely manner on the events in the neighboring republic, present their forecasts, and submit proposals aimed at resolving emerging problems and developing relations between our countries.

Many people are currently worried about the prospects for future relations between Armenia and Azerbaijan, especially considering that the latter now has become a CIS member. I want to say right away that our republic had no objections to Azerbaijan's joining the CIS, and expressed hope that this circumstance will become a stimulus for a peaceful resolution of the Karabakh issue, the problem that represents the only obstacle on the road of normal neighborly relations between sovereign independent states. However, the latest events show that the shortsighted, obstructionist actions of Azerbaijan's current authorities do not leave any hope for achieving peace in the near future. Numerous official statements by Yerevan and Stepanakert and their foreign policy agencies, their acceptance of a new cease-fire schedule, are proof of the desire on the part of Karabakh to cease military actions.

We support the peacekeeping efforts of the UN and the CSCE, as well as government, state, and public figures of a number of states, who have taken upon themselves an important mission—the fair resolution of the problem and establishing peace in our region.

[RESPUBLIKA ARMENIYA] How are our relations with Central Asian states developing?

[Kirakosyan] After the collapse of the Soviet empire, Central Asia began to attract major powers of the world like a magnet. The United States, Japan, France, Germany, Italy, and Great Britain, as well as Korea, India and Pakistan, Iran, Turkey, and a number of other states, began to fish for their "miracle fish" in Central Asian soil, which holds fabulous wealth.

Armenia also has its own direct interests in this region. As is known, we still get our gas from Turkmenistan. We are, of course, interested in the oil and grain, metals, cotton, and relatively cheap food that the Central Asian states have in abundance. Of course, had the roads been open, the situation would have been different, since these states also are interested in a number of goods produced in Armenia—electric bulbs, electric motors, cable, chemicals, cognac and wine, various technologies, electronic equipment, and so on. Through the territory of Armenia, Central Asian states have a gateway to Turkey (and from there on to Europe), as well as to Black Sea ports. Armenia, in turn, through the Central Asian

states would have a gateway to the countries of Southeast Asia and the Far East. As you can see, our relations with the Central Asian republics are no less important. These relations are not always smooth: old traditions are still strong in these states, and they exert a strong influence in the sphere of state and economic management.

Over the past year, we have established diplomatic relations with Kazakhstan, Turkmenistan, Kyrgyzstan, and Tajikistan. The aforementioned and a number of other reasons still keep Uzbekistan from establishing diplomatic relations in accordance with international norms not only with Armenia, but also with other CIS states. Uzbekistan is the only state of the former USSR with which Armenia still has not established diplomatic relations (actually, with exception of Azerbaijan).

With Turkmenistan and Kazakhstan, we have signed protocols on cooperation between ministries of foreign affairs. Finally, we signed long-term inter-state agreements with Kazakhstan, Kyrgyzstan, and Turkmenistan (with the latter during the recent visit of President L. Ter-Petrosyan). Dozens of economic agreements and treaties have been signed and are operating at different levels. The Embassy of the Republic of Armenia has already been functioning in the capital of Kazakhstan, Almaty, for several months. The interim charge d'affairs of the Republic of Armenia at the same time represents our state's interests in Bishkek. The embassy at this point has a minimal staff, but it already is working actively.

We plan to open an embassy in Ashgabat before the end of the year.

In short, we have a lot of things to do in the future, and I can say that the Central Asian region will always remain at the center of our attention.

#### Aviation Chief on Need for Specialist Personnel

944K0418A Yerevan YERKIR in Armenian  
15 Sep 93 p 5

[Interview with Air Force Aviation Chief Col Aleksandr Abrahamyan by A. Dokholyan: "Flight 'In Armenian'"]

[Text] The Air Force, one of the most important components of modern armed forces, is, for understandable reasons, a new thing for us. Up until recently we would look at military aircraft appearing in the sky overhead with an interest purely for the hardware itself. We now experience a conscious awareness that those intrepid souls up there are sons of Armenia, our boys. At first our joy was mixed with doubts: would Armenia, which lacks vital necessities of life, be able to handle such a burden?

In spite of all this, however, on 26 July we celebrated the first anniversary of our Armed Forces. We are talking with Air Force Aviation Chief Col Aleksandr Abrahamyan.



[Abrahamyan] In a structural sense we have essentially stabilized, and we are presently deploying our subunits. Instruction of young pilot personnel has also commenced.

[Dokholyan] Military aviation in Armenia is a new thing. How have you resolved the problem of specialist personnel?

[Abrahamyan] The fact is that we have started from scratch. Thanks to the efforts of our ministry, however, we received first-rate pilots, pilots who in the former Soviet Union had completed advanced training school. And we ourselves began training pilots locally. Many of these are today flying modern aircraft. We are now operating in Arzni, the Republic of Armenia Ministry of Defense Aviation Training Center.

[Dokholyan] Aviation, especially military aviation, is an expensive pleasure, as they say. And our republic is presently experiencing an economic crisis. I would imagine that this in all probability has an adverse effect on your work as well.

[Abrahamyan] Yes, it does. There are many difficulties and basic problems. The government and ministry support us, however. We are allocated an adequate amount of fuel. Otherwise, we would not be able to perform military missions.

[Dokholyan] What kind of living conditions do the pilots have?

[Abrahamyan] The good news is that in our republic, as was the case in the former Soviet Union, they understand the importance of and give priority to aviation. Only 2 or 3 of our pilots have not received individual apartments. First on our list of tasks is to provide them with an apartment.

[Dokholyan] Do you work in cooperation with CIS states, with the Russian Federation?

[Abrahamyan] Of course we are working in that direction. Everything, however, depends on Armenia's financial solvency.

There are also issues pertaining to internal matters: violations of military regulations, desertions, etc. We are endeavoring to eliminate such things.

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*In the course of an informal get-together with primary-rank enlisted personnel, the latter indicated that they were not so dissatisfied with economic difficulties and difficulties with daily life (although pay is extremely low) as they were upset by the demeanor of "money-possessing" young men (strange as it may seem, even such as these sometimes grace us with their service in our army). At times it is difficult even for command personnel to "communicate" with them. One of the noncommissioned officers came right out and stated: "A person with more money*

*than you can shake a stick at comes and stands in front of you and tries to dictate special conditions for his son."*

*It is a situation with which many of us are quite familiar. We encounter such phenomena all the time. The reasons for and the roots of this phenomenon are well known. The army is not an entity separate from society, and certainly it is subjected to the influence of the moral and ethical standards which exist in society. However, we should have kept such market relations out of the Armenian National Army at any price.*

*In spite of all the problems and setbacks, however, the Republic of Armenia Air Force exists today. Col A. Abrahamyan replied as follows to the question: "If it became necessary today, could they defend our skies?"—"It is our duty to do so." And it is the duty of all of us to strengthen the National Army.*

## AZERBAIJAN

### Karabakh War Internationalization Risk Grows

PM1901152794 Moscow KRASNAYA ZVEZDA  
in Russian 19 Jan 94 p 2

[Lieutenant Colonel Kirill Petrov "Military Review": "At a Turning Point. The Conflict in Karabakh Could Escalate into a Large-Scale Regional War"]

[Text] The December-January offensive by Azerbaijani troops is a logical continuation of the events of last summer, as a result of which defense detachments of the NKR [Nagorno-Karabakh Republic] (according to Baku's version, an Armenian expeditionary corps) took several strategically important Azerbaijani population centers outside Nagorno-Karabakh (Agdam, Fizuli, Kubatly), while in Baku the political crisis had reached its peak and subsequently resolved itself in another change of leader in the republic. Back then, even before he had "legalized" his ascent of the Mount Olympus of state power by means of a general election, Geydar Aliyev had promised to resolve the Karabakh problem.

At that time NKR defense detachments had occupied 724 Azerbaijani population centers, and only 215 of them were on Karabakh territory. Approximately 1 million refugees were homeless...

The "summer campaign" of 1993 in Karabakh ended in total triumph for some and a nightmare rout for others. Never before in five years of war had NKR defense detachments "sunk their teeth" so deep into Azerbaijan: Occupying 25 percent of its territory, they set up several so-called "security zones" around the NKR and took control of a 170-km section of the Azerbaijani-Iranian border.

Never before had the Azerbaijani Army suffered such a crushing defeat as in last year's "summer campaign." Agdam, Fizuli, and Kubatly surrendered virtually without a fight—cities for which, proceeding from strategic considerations, the army should have fought to the

last bullet, but it withdrew essentially without firing a single shot, having evacuated the population in advance.

This circumstance gave certain observers grounds for calling the war in Karabakh "strange" and assuming, not without reason, in my view, that at the height of the power crisis the military thus assisted "the departure of Abulfaz Elchibey," then the Azerbaijani president. If this is really so and if precisely this was the strategic task of the Azerbaijani Army, then it should be recognized that it coped with it brilliantly. In any event Elchibey "departed" (true, this also required a thrust from Ganja to Baku by detachments of the rebel Colonel Surret Guseynov, who in the recent past, incidentally, was commander of an Azerbaijani corps in Northern Karabakh), Geydar Aliyev became president, and the army itself, despite claims to the contrary, has not only preserved but also augmented its potential during the four months of the truce. There remained, and remains, just one thing for Geydar Aliyev to do—to carry out his election promise....

If anyone had any hope that the third president of Azerbaijan would reject a strong-arm solution to the problem, it was dispelled in December, with the first shots on the Karabakh front. There is, of course, an explanation for this. It is difficult to hope for success in talks with an opponent who has occupied one-fourth of the country's territory and utterly ruined approximately 1 million of your fellow citizens. Yes, Aliyev, like his predecessors, has gambled on force, but it is appropriate to point out that neither Mutalibov nor Elchibey found themselves in such difficult conditions as he does.

So the guns started up in Karabakh once again in December. Never before had the front line of the Azerbaijani Army's offensive been so broad: from the north to the south of the republic. The fighting was fierce, and there were big losses on both sides. At the time these lines are being written, the Azeris have taken the border settlement of Goradiz near Iran and won back 40 of the 170 km of the border with that state controlled by Karabakhis. According to information from some sources, Azerbaijani detachments are advancing toward the enemy's rear from Iranian territory.

The attackers' strategic plan has become apparent during the recent days of fighting in the zone of conflict: with simultaneous strikes in the north of the NKR's Mardakertskiy Rayon and in the east—against the cities of Askeran, Agdam, and Fizuli—to develop an offensive against Kelbadzhar and Kubatly and cut the Lachin corridor.

In turn it has to be thought that the Karabakh defense detachments will not give up the "security zone" around the NKR just like that. A great deal in the winter campaign will, in my view, depend on whether the Azerbaijani Army has been able to reinstate itself sufficiently to endure a large-scale offensive over the entire front. Will it not become a spent force when drawn

into static fighting (the Karabakhis are hurriedly creating a second defense echelon in certain sections of the confrontation)?

However.... The conflict in Karabakh has approached the stage where it is no longer so important who will emerge the winner from the "winter campaign": There is no military solution to the Karabakh problem, and the mechanism of a peaceful settlement has not been worked out. The most the opponents are capable of, even then not without the assistance of intermediaries, is reaching agreement on a truce, which is used, as a rule, under cover of diplomatic maneuvers and blocking of the peace initiatives of those same intermediaries, to restore combat potential and prepare for a counterstrike.

But the more profound the Karabakh impasse, the more likely the threat of the conflict's internationalization. Incidentally, Afghan mojahedin, citizens of Turkey, Syria, and Lebanon, and "volunteers" from CIS countries are already fighting here. But something else is far more alarming. While war was being waged at a respectable distance from their borders, Tehran and Ankara admitted purely hypothetically the possibility of their direct participation in the conflict. But attitudes toward it have been under revision for some time.

When as many as several tens of thousands of refugees gathered on adjacent territory last summer, Iran held the largest combined-arms exercises involving aircraft on the border for 15 years.

According to data from various sources, during those exercises Iranian Army subunits crossed the border and guarded a reservoir near the village of Goradiz. Several more subunits were ready to cross the border. After this—how tightly everything here is intertwined—Ankara voiced alarm "in connection with the concentration of Iranian subunits near the Azerbaijani border," and on 6 September the head of a Turkish parliamentary delegation spoke in Baku of "his government's readiness to give Azerbaijan military aid in the event of a further escalation of hostilities by Armenia." Turkey's resolve was confirmed in Moscow last fall by Prime Minister Tansu Ciller, and former Premier Bulent Ecevit has called for air strikes against the Armenians.

It would not be out of place to remind you that, in the opinion of experts, the Turkish Army is the strongest in the region. Approximately 1,000 tanks, 1,100 armored vehicles, 2,500 artillery pieces and mortars, 150 combat helicopters, and 300 aircraft of the 2d Tactical Command are concentrated on territory bordering on Armenia. The "North" group of Iranian troops constitutes roughly the same striking force on the border with Azerbaijan.

Whereas just a few months ago movements of Iranian and Turkish units and subunits on the borders could be regarded as a final warning, today....



### Azerbaijan's Progress in Establishing 'Regular Army' Viewed

944K0574A Moscow NOVAYA YEZHEDNEVNAYA GAZETA in Russian 4 Jan 94 p 2

[Article by Eldar Zeynalov: "The Partisans Are Coming Down From the Hills: Azerbaijan En Route to a Regular Army"]

[Text] An obligatory attribute of any state laying claim to independence, especially one with hostile neighbors, is a regular army. It has to be acknowledged that Azerbaijan lacks this attribute as yet. Its armed forces are helpless before the sallies of the Karabakh separatists and their allies, who have occupied a good one-fourth of the territory of the republic. And all this despite the fact that the area is not short of resources and that Azerbaijan obtained an entirely sufficient inheritance from the former Soviet Army.

What, then, is the problem? The fact that unlearned lessons of history condemn a society to repeat them. Did not the history of the Bolsheviks show that neither internal sedition nor outside intervention can be overcome with a volunteer, semi-partisan army? Did not the military campaign of 1941 show that only iron discipline turns a mob into an army? Should the future of the state have been endangered for truisms to be put to the test all over again? But the Azerbaijan Popular Front, whose position has in recent years largely determined the political climate in the republic, regarded the army primarily as an instrument of the winning of political power and made efforts to get hold of weapons.

The first appeal for the formation of volunteer squads was heard in Baku at a demonstration in Baku on 13 January 1990, when, in the period of heavy fighting in Khanlarskiy Rayon, the Azerbaijan Popular Front formed the National Defense Committee headed by Elchibey. I recall how in the academy institute where I was working at that time the registration of volunteers, which was earnestly supported by the Communist Party organization and even the chief of the Special Department (a KGB man, that is), began. This immediately put me on my guard, especially since no one was given weapons, and the lists of the most active and resolute members of the opposition who had registered were not kept secret. The underlying motives for the provocation became clear when, a week later, Soviet forces entered the city under the cover of a furor concerning "thousands of Popular Front combatants."

The volunteer movement subsequently once again made its presence known following Azerbaijan's proclamation of independence in the fall of 1991. Under the conditions of the disintegration of the USSR and the Soviet Army and the Azerbaijan Popular Front's uncompromising campaign to oust the Communists it was a matter of fundamental importance into whose hands the weapons being sold off by the "father-commanders" of the 4th Army would fall. President Ayaz Mutalibov, who

recognized this danger, adopted an edict on the depoliticization of the power structures even before the official commencement of the formation of an army and prior to the self-dissolution of the local Communist Party.

Both then and, at times, now also Mutalibov is reproached with being reluctant to form a national army. I believe, however, that he did want to, but by no means just any army. Thus the "Fronter" Fakhmin Gadzhiev, whom he had appointed deputy minister of defense, pulled back one unit from its positions in Karabakh in January 1992 and brought it to Baku—"the boys need to wash, they say." And in March the "Fronter" Ragim Gaziyeu, commandant of Shusha, whom the opposition had strenuously pushed as defense minister, threatened from the parliamentary rostrum, with a portable radio in his hand, that he would bring his fighters from Shusha and arrange a repetition of the Tbilisi events in Baku. The defense measures of the "red" government, weakened by the loss of the "flower" of the presidential team in the helicopter shot down over Karabakh in November 1991, were censured in the opposition press. The exploits of the leaders of the volunteer campaign, among whom the above-mentioned Ragim Gaziyeu (a mathematician by education) had progressed particularly, were simultaneously being lauded to the skies. After all this, is it any wonder that the army of sovereign Azerbaijan officially numbered by the spring of 1992 some 150 fighters—half as many as the members of parliament? The rest of the fighting force consisted of volunteers—members of the Azerbaijan Popular Front or those in sympathy with this organization.

The surrender to the Armenians, scandalous and bordering on treachery and still not thoroughly investigated, of the cities of Khodzhal—in February 1992 (under Tair Aliyev)—and Shusha and Lachin—in May 1992 (under Ragim Gaziyeu)—occurred at the time of Azerbaijan Popular Front member defense ministers.

Attempting to find the "culprit," the guilty party, the Azerbaijan Popular Front regime took punitive action against many of yesterday's "heroes" of the volunteer campaign (Gatyr Mamed in Agdam, Mekhraliyev in Agdash, Bakhramov in Dzhaliabad, Alyamshakh in Badra, S. Guseynov in Ganja, and others), simultaneously attempting to do some things in respect to the formation of a regular army. Thus illegal armed formations were banned, and a draft spanning 10 successive draft-year age groups was announced also (reduced to nothing by the corruption of the military registration and recruitment offices).

But time had already been lost, and the growing opposition was scoring points with each new defeat at the front. What was most dangerous was that the army also, in which by the end of their rule the "Fronters" had repressed six out of 10 generals and one-eighth of the officer corps, had slipped out of control. And the Azerbaijan Popular Front then turned once again to the



tried-and-tested weapon—volunteer squads, whose formation was announced, with the tacit approval of President Elchibey (and in violation of his edict) at a meeting of the Azerbaijan Popular Front in February 1993 in Baku. A state of emergency was imposed in April, and it was announced that the Azerbaijan Popular Front was "prepared not to shrink from bloodshed." This was demonstrated at the time of the events of June 1993 in Ganja, which culminated, however, unexpectedly for the organizers in the victory of a leader of the volunteer campaign who had suffered repression—Suret Guseynov. The circle was thus closed, and the regime fell apart in a clash with its own creation.

The struggle against the volunteer anarchist chaos was a principal direction of the activity of Geydar Aliyev, who came to power. The unprofessional proteges of the Popular Front were methodically "smoked out" of their positions in the power ministries, approximately 30 battalions, composed of 50 percent "dead souls" and 50 percent former volunteers, were disbanded, and Ragim Gaziyeu and a number of other Azerbaijan Popular Front figures, against whom charges of the negligent discharge of their official duties in the army, theft of property, and such were brought, were arrested. The press was given the "go-ahead" for descriptions of the gangster adventures of a number of "chieftains," which had earlier been shamefully hushed up from patriotic considerations.

At the present time the volunteer squads persist only in the Nakhichevan Autonomous Republic, where several areas remain under the control of the Azerbaijan Popular Front. They are headed here by one T. Guseynov, who proposed in August the formation of a Nakhichevan Defense Council to confront possible Armenian aggression against this Azerbaijani autonomy.

The ring around the fugitive ex-President Elchibey is tightening. The detachment of interior forces loyal to him has been disarmed, and 12 officers and the chief himself (lacking, according to the tradition of recent times, special education) have been dismissed from the district police department in his native Ordubadskiy Rayon. An attempt to seize the Nakhichevan Autonomous Republic MVD [Ministry of Internal Affairs] on 29 October was foiled and led to the arrest of the most active "Fronters." Elchibey's cousin—Ayдын Gasymov, against whom a Turkish fanatic, a "gray wolf," arrested on 1 October testified—was arrested and charged with preparing an act of terrorism.

G. Aliyev has left his predecessor two ways out—to fully disarm (physically and ideologically) and submit to him as president or, relying on the volunteer-combatants, to continue the desperate, but doomed struggle to the end. In the first case Elchibey would be left without even the illusory hope of once again seating himself in the presidential chair. In the second there is a chance that he could escape to friends in Turkey wearing a martyr's crown and even form a "government in exile" from the *cis-devant* of his circle.

Whatever the case, it is obvious that Azerbaijan has gotten over the volunteer campaign. Individual squads or terrorists are no longer calling the tune in policy, and the formation of a regular army has been the priority concern of domestic policy and serves as the basis of the mutual understanding in the President Aliyev-Prime Minister Guseynov tandem. Following the punishment of several military commissars, mobilization is finally under way. Deserters are being caught, and military tribunals, who have in the year examined hundreds of cases, are operating. The day when quantity switches to quality is not far off. Especially since following the failure of the efforts of the CSCE and the four UN Security Council resolutions on the liberation of the occupied territories, which have been ignored by the Armenians, the Azerbaijani leadership is left with no choice, evidently.

#### **Presidential Edict Tightens Controls on Foreign Trade**

944K0574B Moscow *FINANSOVYYE IZVESTIYA*  
in Russian No 58, 10-16 Dec 93 p 1

[Report by Sokhbet Mamedov: "Azerbaijan's Foreign Trade Is Taken Under State Control"]

[Text] Baku—The president of Azerbaijan has issued an edict on tightening control over the foreign trade activity of the republic's enterprises and organizations. This is a forced measure, a number of economists believe, and has been brought about by the fact that more than 90 percent of the republic's enterprises engaged in foreign trade transactions are endeavoring to keep the monetary resources they have earned outside of Azerbaijan. Last year Azerbaijan exported \$750 million of commodities overseas. Of this sum, more than \$600 million have not as yet entered the republic.

A similar trend is being observed in commercial transactions with the republics of the "near abroad," Russia included. For example, according to figures of the State Committee for Statistics, in nine months of the current year R116 billion of commodities were exported to Russia and just R62 billion of goods were imported. The arrears of more distant foreign countries are substantial. Such states as Iran, Turkey, and Greece owe Azerbaijan over \$60 billion.

#### **Banking Committee Proposes Policy Reforms**

944K0443A Baku *KHALG GAZETI* in Azeri  
8 Oct 93 p 2

[Unattributed report: "Bank Policy Must Be Restructured"]

[Text] There is a serious need for the complete restructuring of economics and bank policy in the republic. This was discussed broadly at a meeting held at the Cabinet of Ministers which was chaired by Azerbaijan's prime minister, Surat Huseynov, on 5 October.

At this meeting, which was attended by leading workers in the republic's banking, financial and tax organizations, the situation in the finance and credit system was analyzed from all sides. The discussion about the budget shortfall, shortcomings in the collection of taxes and the low level of banking technology was broached uncomfortably. It was noted that a number of institutions openly avoid paying taxes, checks are not accepted by the cashiers at commercial stores, and there is no supervision over fully transferring to the budget taxes on income attained.

In the opinion of those who spoke at the meeting, there is an urgent need for changes in the tax law, in preparing tax prognoses, and in defining types of additional taxes. The situation in the economy requires that domestic debit and credit obligations be met rapidly. There can be no satisfaction in the fact that these debts amount to some 200 billion rubles.

The speakers also touched on the issue of taking relevant measures to use the state's expenditures more effectively. It was noted that the most important production sectors have to be restructured and that investment financing means must be used correctly. The strengthening of the state's control over currency transactions was made a priority at the meeting. It was noted that import-export activity by banks was not supervised adequately and that the employment of personnel with no experience in the banking system had led to a lagging behind in many sectors.

Prime Minister Surat Huseynov, in summing up the meeting's results, talked about concrete duties connected with the subjects discussed.

#### **Interethnic Relations in Republic Viewed**

944K0443B Baku KHALG GAZETI in Azeri  
13 Oct 93 p 2

[Article by Eybaly Mehreliyev, Dr. Geo. Sci.: "There Is But One Citizen In A Civilized Country"]

[Text] The geographical location of the Azerbaijan Republic, which is located in what Academician Marr called the "Caucasian Isthmus," lies at the crossroads of Christianity and Islam, Christian-Gregorianism and Judaism. This occurred without discrimination among the peoples. In the course of historical processes the republic's population mixed and intermingled with other peoples and ethnic groups in addition to those who were Turkic-speaking.

The fact that the majority of the people living in the republic are Muslim has led to broad relationships. This assures the close unity of the population. But processes following the fall of the Soviet empire caused a far-reaching national awakening in Azerbaijan, as well as in other places. The situation which was created led to the development of thoughts about entire nations, as well as minority peoples in determining their own fate.

As a result of poorly thought out propaganda about ethnic relations, a number of minorities have begun to establish their own self "defense." Thus, they have created their own "societies." In the past, this commanded great sympathy. However, this also awakened the self-preservation instinct of peoples, and created Talysh, Lezgian, Avar, Udin and Kurdish factors. Undoubtedly, had attention in government circles not been drawn to this, the mature social stratum of national minorities could have slowed this process down and preserved it.

It strikes many that the process of national awakening is accidental and could be quickly eliminated. Such ideas are mistaken, the disturbance created from national awakening will survive a long time. Among the population of those who have not yet become adults this process will continue even longer. This process also creates social tension. Earlier, 35-40 thousand youth having very strong self-preservation instincts left the republic every year. This significantly weakened the social tension. On one hand, the war, the lack of growth of jobs and the horrendous refugee situation, on the other, the non-objective propaganda by provocateurs, makes the situation more complicated. There is, however, no national basis for this. The present social and economic difficulties have created the war. We have to emerge from this situation by working together and striking back at the enemy.

In the time of the last regime a number of mistakes were also made in ethnic policy. By saying "Turks have no friends other than Turks," the potential for ethnic discrimination was created. The population living in the republic, regardless of their size or number, took part jointly in the formation and development of national culture in Azerbaijan. These peoples were stabilized by one citizenship in our republic. Thus, there was never national discrimination in Azerbaijan. But, within the ongoing processes, the spirit of self-awareness began to grow. Provocateurs, making use of this, are beginning to increase dissatisfaction among the non-Turkic population.

The emergence of the wish to "live freely" in man's nature creates the conditions for fragmentation. Narrow-minded men understand the concept of "living freely" only in a limited sense, and interpret it as the living freely of individual men. Nevertheless, the wish to live "freely" must be understood to mean the development of an ethnic group or people, its reaching world culture, and its national flowering.

In recent years, the inflaming of ethnic feelings in the republic has done serious damage to mutual understanding. But social development led to the attainment of a civilized level within the population and the dominance of individuals with harmonious natures within the ethnos. Without them, no ethnos could survive, and each of these persons is a reason for the development of the ethnos. Because such people are at a mature stage, they equate their passionate impulse with their instinct for

self-preservation. When the individual's self-preservation reaches a harmful level, it leads to the growth of people to a mentality of prodigality and an anti-social character. Mature individuals know that peoples possessing a small population and little territory can always gain an entree to world culture through the language and cultural treasury of any large nation because their intellectual development and local possibilities do not correspond to a modern level of development. Thus, socially mature persons from minority peoples have always worked to create close ties with the larger people. When the Azerbaijan Democratic Republic [ADP] was established the Avars living in Balaken and Zagatala Rayons wanted the opening of schools in their own language. Knowing this, Colonel Ahmedbey Dibiroy (commander of the ADP army in the Sheki-Zagatala zone) advised them that if we want to reach out to world culture, we have to study in Turkish or Russian. Since our people are similar to the Turks as Muslims, it would be more appropriate for the children to study in Turkish.

In every country the permanent residents of that country are citizens of it. Often those who talk about civilization have to be aware that in the United States of America, the world's most progressive, civilized and democratic country, there are only citizens, not nationalities.

Second, the thrusting forward of national discrimination is ignorance. Such imprudence has done not less damage to the republic than the war.

Ethnic relations in the Azerbaijan Republic are seen broadly in the context of living together, unity of religion and family relationships. The national question is an exceptionally broad and sophisticated problem. Without knowing its scope, certain peoples conducting a nationality policy who lack an instinct for self-preservation have not drawn necessary conclusions. Dividing a people according to the concept of large or small is in itself defective. In every measure conducted in this sector, the entire population must be evaluated as a whole because the destiny of the republic is in their hands. In other words, the demands on the one citizen and this same citizen's concerns must be identical.

#### Hitherto Secret Archives Opened

944K0443C Baku KHALG GAZETI in Azeri  
13 Oct 93 p 4

[Interview with Atakhan Musayev, head of the Main Archive Administration of the Azerbaijan Republic Cabinet of Ministers, by Aghagulu Niftaliyev: "Without Archives, There Is No History"]

[Text] Our interviewee is Atakhan Musayev, candidate in historical sciences and head of the Main Archive Administration of the Azerbaijan Republic Cabinet of Ministers.

[Niftaliyev] The importance of archives in the study of the history of our republic and people is irreplaceable. How is the Main Archive Administration meeting this commitment now?

[Musayev] History must be learned and studied. The great majority of documents and materials to write history based on the facts are kept in the archives. The archives are an autobiography, a diary, a book of memories about every country, society and their lives. For me, the archive is a living organism, an existence.

These documents are concentrated in the state archives of our republic. The leadership of the archives, supervision of its work and related matters is the direct job of the Main Archive Administration of the Azerbaijan Republic Cabinet of Ministers. This organization also supervises work conducted on documents concerned with the republic's work and administrative archives, and provides them with methodological help.

[Niftaliyev] How is archive work structured in our republic?

[Musayev] There is a vast archive network in our republic. There are now seven state archives in our republic. These are the Azerbaijan Republic Historical Archive, the Contemporary History Archive, the Archives of Political Parties and Public Movements, the Literature and Fine Arts Archive, the Scientific Technical and Medical Documents Archive, the Cinema-Photo Archive, and the Oral Archive. Branches of the Contemporary History Archive are located in 15 cities of the republic. There are also rayon state archives. In Nakhichevan, the autonomous republic has a Central State Archive. In short, an archival network which has collected together in itself abundant documents and materials that make the history of our people come alive in our republic. There are more than 3.5 million separate documents in these archives. In the documents the rich history of our people from the end of the eighteenth century to the present are preserved. The scope of the work and the documents in the archives continues to expand.

[Niftaliyev] What changes have there been in recent years, and have there been any new archives created?

[Musayev] In connection with the dissolution of the Azerbaijan Communist Party and the abolition of the Party History Institute of the Central Committee of the Azerbaijan CP at the end of 1991, the party archives were subordinated to the Main Archive Administration in accordance with the order of the president of the Azerbaijan Republic dated 24 October 1991. Through our efforts the Republic Cabinet of Ministers created the Central State Archive of Parties and Public Movements on 18 December 1991. The major duty placed before this archive was not only to preserve the documents of the Communist Party and organize their use, but also to provide scientific-methodological advice and help for the numerous parties and public movements to establish their own archives and to preserve their documents.



[Niftaliyev] How are the Archive documents used?

[Musayev] The archive documents are used for various purposes: in research work and practical work including the education of the younger generation by means of radio, television and the periodical press. The work of using the archive documents is basically conducted in two directions. The first of them is that the documents of the state archives themselves are placed at the disposal of the broad reading masses through the periodical press, document collections and other means. Our archives have disseminated dozens of large-scale document collections, and thousands of documents have appeared in the pages of the journal AZERBAYJAN ARKHIVI. Our colleagues are preparing a number of document collections and publications of "white stains" in our history, and over the period of 1918-1920 and later. In this series are "Protocols of Meetings of the Parliament of the Azerbaijan Democratic Republic," "Decrees of the Government of the Azerbaijan Democratic Republic," "Work in the Sector of Building the Armed Forces of the Azerbaijan Democratic Republic," and others. While some of these have been prepared and submitted to the publisher, unfortunately the expense and the limitations of financial possibilities have made it impossible to publish them. As for the journal AZERBAYJAN ARKHIVI, which is the best channel for bringing the documents to the readers, we have been unable to publish it for several years.

[Niftaliyev] Are there still documents marked secret?

[Musayev] The democratic changes occurring in our society have also had an influence on archive work and have led to the erasure of the secret stamp on many documents. For example, documents pertaining to the activities of the Azerbaijan Democratic Republic had been locked away for many years. In the last three or four years the most often-used documents are those pertaining to the Azerbaijan Democratic Republic.

As for those documents still marked secret, these have always been in the archive and always will be. Documents pertaining to defense and state secrets are in this category. On the other hand, the protection of human rights and the inviolability of the person of a citizen of Azerbaijan under conditions of the democratization of society are being guaranteed, and the personal life, correspondence and other secrets of citizens of Azerbaijan are protected by law. In this context, the secrecy stamp is maintained.

[Niftaliyev] What are the difficulties in your work?

[Musayev] We have many difficulties. Without eliminating them it will be impossible to put our archive work on the level of modern demands. The most important is the lack of a building that corresponds to modern demands for the preservation of documents. Twenty years ago the foundation was laid for the construction of warehouses for the republic state archives. One could say that completion of the construction of this building could guarantee us with storage facilities for preserving

all the state archives in the capital of our republic. This building, which could hold 1.5 million files, would have made it possible for the Central State Archives in Baku to accept more than one million more files from various ministries, administrations and organizations. However, over the last 20-25 years the archives have been unable to accept documents because of lack of space. Most of the documents are in antiquated, inadequate buildings. We were unable to create optimal circumstances for their preservation. This is causing the gradual loss and destruction of these documents.

One of our fundamental difficulties is the lack of laboratories equipped with the modern technology for the restoration and microfilming of documents.

[Niftaliyev] What are your relations with foreign archives?

[Musayev] Today the possibility has been established for the republic Main Archive Administration to freely enter the International Archive Council and establish bilateral relations with the archival organs of several countries. However, our financial situation makes it impossible to enter the International Archive Council. We are now working to achieve bilateral relations in this sector with the archives of certain countries. The first ties we have established were with the archives of the Republic of Turkey. In recent arrangements with Turkey we have received document collections pertaining to the history and bibliography of the Turkic world, as well as many other materials on archival work in the country. The most valuable for us under this arrangement is the receipt of the first volume of archival documents pertaining to relations between the Ottoman state and the Turkic khanates of Azerbaijan between 1578 and 1914.

[Niftaliyev] What measures are planned to improve archive work?

[Musayev] Primarily, the regulations of the Main Archive Administration must be changed. We have already prepared new regulations and submitted them to the Cabinet of Ministers. The difference between these regulations and the first is that the Main Archive Administration becomes completely independent.

We have also completed the draft of the law "On the Archive Fund and Archives in the Azerbaijan Republic." This will be the first legal document in our republic in the sector of archive work.

#### **Border Transit Agreement Signed With Iran**

944K0443D Baku KHALG GAZETI in Azeri  
20 Oct 93 p 4

[Unattributed report: "At The Customs Committee: Agreement Signed"]

[Text] Recently an agreement on the transit of freight was signed between the Azerbaijan Republic and the Islamic Republic of Iran. Refael Rzayev, first deputy

chairman of the republic Customs Committee, and Mr. Kaenduri, first deputy Minister of Customs of the Islamic Republic of Iran, signed the agreement. Both sides came to an accord on simplifying the movement of goods and transportation on the territories of the states by considering common interests, with the goal of strengthening and widening economic cooperation...

**Azerbaijan-Dagestan Border To Be 'Stability Zone'**

944K0443E Baku KHALG GAZETI in Azeri  
26 Oct 93 p 1

[Unattributed report: "Azerbaijan-Dagestan Border Will Be Turned into a Stability Zone"]

[Text] The border of the Dagestan Republic of the Russian Federation and Azerbaijan must be turned into a zone of stability, security and cooperation. This wish of both sides was expressed by Azerbaijan's president, Heydar Aliyev, at a meeting held with elders from the neighboring Dagestan Republic who were in Azerbaijan on a trip.

The head of Azerbaijan's state, expressing our republic's position to the Dagestani guests, said that the border between us has a conditional character. For centuries representatives of the Azeris, Avars, Sakhurs, Kumyks, Dargins and other ethnic groups have lived in solidarity and mingled. Azerbaijan's president, while noting that the uniting of national minorities in various societies, including ethnic organizations, was worthy, also noted that common human values must unite all men, no matter what their identity. They have opted to live in our republic, and each of them are Azerbaijanians. As the rights and responsibilities of all of us are one, we must also correctly understand our duties.

Seid Gurbanov, head of the executive government of Derbend Rayon and spokesman for Dagestan's elders, in discussing the goal of the talks, said that they were of a mind to confirm the good ties between the states and make some proposals about aiding the refugees, which are a common problem.

Abbas Abbasov, republic deputy prime minister, took part in the reception.

## ECONOMIC AND SOCIAL AFFAIRS

## Gaydar on Past, Future of Economic Reforms

944E0370A Moscow *EKONOMIKA I ZHIZN*  
in Russian No 49, Dec 93 p 1

[Interview with Ye.T. Gaydar, first deputy prime minister of the Russian Federation, by M. Panova; place and date not given: "The Logic of Reform"]

[Text] The government of Russia has been accused of neglecting "explanatory efforts" for a reason. Even professional economists do not always understand the logic of steps taken by the government; many actions cause bewilderment and, as a consequence, protest. In an effort to assist the readers of *EKONOMIKA I ZHIZN* in figuring out what the government itself means by the policy of reform, the editorial office approached Ye.T. Gaydar with a request to answer a number of questions which are encountered most frequently in letters from our readers. Therefore, Yegor Gaydar, first deputy prime minister of the government of Russia, is our interlocutor.

[Panova] Yegor Timurovich, before we ask you questions about the plans of the government, we would like to ask how you personally assess the path traveled by the country since the fall of 1991, when the policy which has come to be called the "Gaydar reforms" began?

[Gaydar] Let me answer two questions at once—about the reform process, i.e., the way the reforms were carried out, and about the intermediate result, i.e., what the reforms have brought about.

The reform process has been extremely contradictory, and transformations have proceeded quite inconsistently. It is the custom in our country to address rebukes to some generic authority; however, it should be understood that authority as a united entity or at least non-contradictory has not existed in our country so far. The government was involved in continuous confrontation with the Supreme Soviet, which did everything to stop the reforms. As is now obvious to all, various trends also existed within the government, and the reformist line was not necessarily dominant. We were forced to agree to numerous compromises and retreat on many significant nuances in order to salvage the key point. This inconsistency was perceived by both specialists and the population. The choice we had was either to do what was possible while consenting to much of what we considered incorrect, but taking what we viewed as fundamental steps, or, "saving face," become the opposition and observe, this time from the sidelines, how the country would waste an opportunity to overcome the crisis. We preferred the path of compromise, although perhaps we disappointed a segment of our supporters in this manner.

As far as the results of these two years are concerned, I cannot agree in any way with apocalyptic assessments which are quite frequently published in the press. On the contrary, clear-cut favorable trends have emerged in the economy of Russia. Strange as it may seem, the word

"success" is considerably more fitting for Russian reforms than the word "failure."

Our current situation should not be compared to the United States or Germany but rather to our own situation as of two years ago, as well as to the tendencies and expectations we had at that time. Recall the fall of 1991—complete breakdown of the market, empty stores, the dominance of barter, humiliating hours in lines, and the feeling of hopelessness. There were a great many predictions of famine, cold, and rebellion. One may be as critical of the activities of the government as one wants, but it is impossible not to acknowledge that these predictions have failed to come true. Not only have we survived, but we feel much more confident than two years ago. For example, even the most irresponsible people do not discuss the threat of famine at present.

In general, when our opponents now enumerate the troubles of the Russian economy with an accusatory intonation, we would like to ask the basis for their belief that it could have been easier? At the time of disintegration of the USSR several crises at once were superimposed over one another. The output of energy resources—the main item in Russian exports—declined sharply. Due to the attempts of the last union government to patch up the holes with the use of Western credit, Russia fell into a debt trap. An irresponsible financial policy brought about the emergence of a huge merchandise deficit and the actual depreciation of the savings of the population, which really perished right then, in the years of perestroika. In January 1992 this merely became obvious.

Of course, the standard of living of a majority of the population is still very low. However, in this instance, too, everything is not as bad as it appears to be. In the last 10 months the real income of the population has not declined, and if we were to compare it to the beginning of 1993, it has increased.

Therefore, despite the situation remaining quite complex, with quite a few things not working out the way we had planned, I view the results of the past period favorably.

[Panova] As you see it, what should be the key priorities of economic policy for the next year or two?

[Gaydar] Our main task is to ensure a break in the inflationary spiral and ensure the predictability of key economic parameters in the production sphere.

For this purpose, it is necessary to consistently reduce all types of subsidies in the production sphere in 1994: import subsidies, preferential credit, and credit extended to the states of the Commonwealth, and to bring the deficit to a volume not exceeding 5 percent of the gross domestic product.

In turn, this will make it possible to abandon the financing of the budget deficit through emission by the



end of 1994, and to switch to financing it from healthy sources, both domestic (state treasury bonds) and foreign.

The rate of growth of the money supply will drop from 10 percent per month in early 1994 to 3 percent per month at the end of the year. This will make it possible to maintain a relatively stable rate of depreciation of the ruble against the dollar, not to exceed one-half of the rate of inflation. The currency exchange rate, relatively cheaper imported goods, and the strengthening of price competition on this basis—all of these may be used to slow down inflation from 15 percent a month at the beginning of 1994 to 5 percent a month at the end of 1994.

Subsequently, as the rate of inflation drops, prerequisites will be created for lowering the discount rate of the Central Bank, lowering the interest rate on the market, and, correspondingly, the growth of private investment in the production sector.

[Panova] What awaits us in the sphere of taxation?

[Gaydar] Unfortunately, in the environment of a considerable budget deficit there will be no opportunity to reduce the burden of taxes in 1994. At present the level of tax withholdings comes to 50 percent of the gross domestic product; a real reduction in it may be discussed no earlier than 1995. The key directions in this area are: reducing taxation of wages (withholdings for social security), and canceling levies on above-the-norm labor compensation fund.

The codification of a universal form of distribution of taxes to the levels of the budget system, between the federal budget and the territories, a transition from customized norms for each region established in the process of bureaucratic bargaining to universal rules, with appropriate support to poorly developed regions—such is the substantial advance which may and should occur in 1994.

An increase in taxes on factors of production—natural resources, real estate—as a share of the total volume of taxes is yet another long-range avenue for the system of taxation. However, this will only become possible after a low level of inflation is attained.

[Panova] People have the impression that the government's tax policy encourages only commerce and banking, but makes operations in the production sphere unprofitable.

[Gaydar] Generally speaking, our taxes are the same for both production and commerce. However, the effect you mentioned exists as a consequence of the so-called inflationary tax. The inflationary tax means losses which the owners of monetary savings suffer as a result of high inflation. Naturally, losses due to the inflationary tax are not comparable to profits in commerce and the banking sector, in which money is turned around quickly. In turn,

these losses are very significant in production, especially in sectors with a long production cycle, and for the population.

This problem cannot be solved through differentiated taxation of the spheres of production and distribution; after all, increased taxes in the sphere of distribution will cause massive tax evasion. This is why there is only one way to even out conditions for taxation—it is to stop inflation.

[Panova] Will the privatization policy undergo changes?

[Gaydar] As we discuss the process of privatization, we should compare what has already been accomplished in the course of it with what is yet to be done in the long term.

Privatization in Russia is unprecedented in scope and not comparable to the experience of any of the countries of the world. There are monumental technical difficulties in its path here affecting the forms of privatization, the system of vouchers, and the appraisal of privatized property.

All of these are objective aspects.

However, there are also subjective aspects. We are not the authors of the privatization program—we proposed a different program which did not have such great preferences for labor collectives, that is, the point for which we are now being criticized.

However, decisions were made by the Supreme Soviet, often contrary to our opinion; as a result we have a compromise version of the program with many flaws.

We cannot change the rules of the game in the middle without the risk of triggering major social conflicts; this is why we should conduct the current stage of privatization to the end and change the rules gradually.

Property has already been distributed, but effective control over it by the new owners has been absent so far. The role of the management and labor collectives is clearly excessive. This is why the most pressing task is to create effective owners, to establish rules and procedures for the redistribution of property, and to create a system counteracting all attempts to squander such property. In this instance, the role of investment funds as outside coowners of enterprises in resisting the arbitrary rule of directors is very great.

We are making a transition from the system of handing out property free of charge to selling it, from unconditional privatization to privatization conditioned on additional investment.

[Panova] At present, everyone agrees that structural changes in our industry are necessary. What would be your description of the situation in this sphere? Are structural changes underway in our country? Are you satisfied with this process?

[Gaydar] Of course, structural changes are progressing, and they are not progressing poorly. Statements about a profound crisis in industry or fatal declines in production are either manifestations of incompetence or simply deliberate distortions of the facts.

Let us look specifically at areas where we have considerable declines in production, for example, light industry. However, many light industry enterprises were so ineffective that they generated a negative value added for our entire industry, whereby the total cost of output was less than the cost of resources consumed in production. The "production of the means of production"—machine tools for the production of machine tools, metal for the machine tools producing machine tools, power for smelting this metal, and so on—which is well-known from school textbooks, is also declining in our country. On the contrary, the share of civilian machine building and the food industry in the structure of the national economy (in constant prices) is increasing. The strengthening market mechanisms is throwing up a barrier in the path of producing everything that is not associated in any way with meeting human needs. Industry for the sake of industry, which indeed is a peculiar accomplishment of ours, is yielding to production for the sake of the people, however slowly and with resistance.

Certainly, such a decline is beneficial. It is no accident that, until a few months ago, the total level of decline in production in Ukraine was lower than in Russia, whereas the standard of living fell considerably more than in our country, and social tensions were greater, to boot. We are gradually getting rid of that production which was pulling us to the bottom.

It is necessary to note one more aspect here which is important in principle. So far, the process of structural change has proceeded without major social upheaval and against the background of a quite low unemployment rate. For two years now they have been promising us the 20 million level of unemployment. However, at present the rate of unemployment does not by any means exceed 3 percent, even with the inclusion of those who are on forced leave. We have every reason to believe that in the coming 1.5 years the unemployment rate will remain quite low. Nonetheless, the government is attentively following the situation in the labor market. We have developed special programs of aid to the unemployed and retraining for those who, having lost their jobs, would like to train in new professions.

#### **Election Results Reflect Failure of Reforms**

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[Article by Doctor of Historical Sciences Aleksey Arbatov: "What Will Russia's Choice Be? The Reforms Must Be Started All Over Again"]

[Text]

#### **Prospects**

Why, actually, is there the widespread opinion that democracy failed in the December elections? There is no doubt that the results of the elections were unexpected and many people were simply shocked. It is also true that we are still a long way from true democracy and recognized political pluralism. But even under these, to put it mildly, extraordinary conditions, after the bloody crisis in October and two months of actual authoritarianism, democracy immediately produced its results as soon as the valve of the election points was opened up for it.

These results come from the working of a feedback mechanism between the people and the state leaders. This is one of the fundamental and indispensable functions of democracy and it is manifested most distinctly through general elections.

Here again we should not console ourselves with illusions. The loss by the government party, Russia's Choice (whose presumptuous name now sounds rather amusing), and the immense shortage of democratic and centrist blocs along with the solid success of the nationalists and communists cannot be explained away by random or attendant factors.

Essentially the Russian people gave the strictest warning to the ruling circles that they must not continue to rule in this way. The social organism is sending a strong and painful signal to the effect that it is seriously ill and the course of treatment of the past two years has not brought improvement but has severely exacerbated the disease. But this pain itself is both dangerous and salutary at the same time.

It is dangerous because if the previous policy is continued the pain will increase and ultimately destroy the organism; it will cause irreversible degeneration and then death. It is salutary because if the signal is taken seriously and the course of treatment is correctly altered there will be every possibility of averting tragedy. In the situation that has developed, both a negligent attitude toward the results of the elections and gloomy fatalism or panic are equally destructive.

And it is not that "the people are always right"—history provides many examples of nationwide self-destruction, including through fascism, imperialism, and militarism. It is simply that the people are what they are and any program of reform must be adapted to this particular country with all of its specific features. The reverse will not work: the people cannot be selected to fit the program. No theoretically ideal reform is worth its salt if it works for distant England or even nearby Poland but is rejected by Russia and opens up access to power for extremists. Nobody except the people themselves can carry out a reform in Russia, and if an immense and ever increasing part of the society lets the ship of reform pass them by, ultimately it will be overturned and everything will sink to the bottom: advanced and backward, right and wrong.

The main truth of the current moment is that the majority who voted for Zhirinovskiy are not so stupid and naive as to believe his easy promises and give themselves over to cheap demagoguery. They voted that way out of a feeling of protest against what is happening in the country and also because they did not see any clear and attractive alternative. Herein also lies the key to the solution to the problem, the path to the rescue of the democratic reforms.

In his speech on 22 December President Yeltsin noted that the elections to the Duma showed that the administration is "falling short of its task." I am afraid that the president was being too kind to himself and his subordinates. In the current situation this is very alarming. We have had enough of protecting the president from criticism, from truthful information about the real state of affairs, from nondepartmental assessments of the prospects for economic and social development, from what people are saying about him and his government. To offend and anger the president is less dangerous now than to indulge the complacency which has already manifested itself so fatally during the election campaign.

The bitter truth is that the preceding state of the reforms was a failure, and cosmetic patching up, personnel reshuffling, and administrative leapfrog will not rectify the situation. We must no longer speak about "continuing the course of the reforms" but about radically revising both the methods of development of the policy and the policy itself.

Over a period of two years industry has declined by 40 percent, and more in consumer goods production than in defense and heavy industry. Actual consumption decreased by 40-60 percent. Some 30 percent of the population ended up on the brink of disaster. The structure of the economy changed even more in the "Soviet" direction—in favor of the extraction branches. The same thing pertains to exports. The national currency is "working" only in the sense of its being exchanged for freely convertible currency, and nobody uses it for savings or investments.

Just an enumeration of the various aspects of the unprecedented collapse, degeneration, and uncontrolled behavior that have appeared in all areas of our life would take up too much space, and quite enough has been written and said about this. It is important not to console ourselves with illusions, as though these are temporary difficulties and it is impossible to carry out such great transformations without them. The previous policy has completely exhausted itself and we are left with a delicate balance between hyperinflation and hyperunemployment, and its continuation will ultimately lead to both of the above at the same time.

I will not resort to the assessments of nongovernmental economists such as Grigoriy Yavlinskiy, Nikolay Petrakov, Oleg Bogomolov, or Stanislav Shatalin—they too are sufficiently well known. I will turn to the statements of Yegor Gaydar, who even after the elections stated

once again that the government's main goal is to put an end to inflation through a balanced budget so as to provide for savings and investments and thus bring about economic growth. And it was literally right at this point that he admitted that demonopolization and privatization were not working and it was not without irony that he called for everyone who has solutions to these problems to support the government.

How can that be? After all, without demonopolization and real privatization the mechanism for investments, competition, and economic growth will never begin to work. To find the practical solutions the first deputy prime minister is asking for would indeed be extremely difficult. But without them how can we count on any economic growth (except in the sphere of trade and speculation) even with decontrolled prices? After all, now 87 percent of Russian enterprises either belong to the state or controlling blocks of shares in them are in the hands of bureaucrats.

The mechanism for self-perpetuating inflation is implanted in the very basis of the "liberalized" Soviet economy, which has obtained as a result of a two-year attraction to monetarism. It was revealed by an adviser and advocate of the government program, Yevgeniy Yasin: If we produce money—prices will increase because there will be more money; if we do not produce money—prices will increase because production will decline and there will be fewer goods.

If there is no solution to the key problems of demonopolization and privatization so far, we must search for them with redoubled energy and for the time being abandon all hope of a deficit-free budget and "financial stabilization." Free prices and full store shelves that are accessible to the minority, exchanges, commercials, vouchers, and shares—all these are merely the wrappings, an imitation of a market economy without the internal motive mechanisms. It will never work just as the Papuan plane will not fly (after the war natives of Papua went out into the meadows and began to build a facsimile of an aircraft out of branches in the hope that the kindly Americans would fly to them again and bring them cigarettes and chocolate).

If, having gone through the cycles of the fight against inflation, we turn the financial screws even tighter, abolish subsidies, and no longer provide wages and cut state social programs (as Boris Fedorov suggests) the economy will simply grind to a halt and tens of millions of people will be left without a means of existence. Then who will handle the accumulations? And what will they invest in even if there is zero inflation? And what kind of political stability can one hope for by 1996 with this kind of situation?

After all, ultimately a market economy is not a goal in itself. Democracy is impossible without it, but a market economy in and of itself by no means guarantees democracy and progress. Both Bangladesh and Somalia have market economies too, but they have neither democracy



nor prosperity. Nor should one forget that Hitler's Germany was based on a market economy and it lived in harmony with concentration camps, Gestapo terror, and an all-out suicidal war. The price and costs of reform are not as important as the final goal—70 years on a path to a "bright future" should have taught everyone this.

What we need now is not switching of offices but the creation under the president of a broad independent committee of leading experts so as, in the first place, to clarify on the basis of complete information the real state of affairs resulting from these two years of reformism and to tell the whole truth, regardless of how bitter it may be. And, in the second place, to suggest ways of getting out of the crisis irrespective of dogma and the personal affiliations of officials, tailoring them to the objective conditions of the Russian economy and sociopolitical situation. This path must be followed based on the broadest possible coalition of all democratic forces of the society and above all the parliamentary factions.

In this connection we may speak about the unity of democratic forces. Anatoliy Chubays and many Russia's Choicers after him hastened to lay the blame for the results of the elections on other democratic blocs which supposedly fragmented the reformer front. But that is nothing but an attempt to shift the blame. If all these parties were to form a bloc with Russia's Choice they would have simply divided up among themselves the same electorate that voted for Choice. And their own followers either would not have participated in the elections at all or some of them would have voted for Communists, increasing their representation in parliament even more.

The main mistake of the democrats who did not belong to Russia's Choice was that they were unable to join together and were unable to provide a democratic alternative to the course of the government and Russia's Choice that was clear-cut and attractive to everyone who was not against reforms and democracy in principle but would not accept what had been done in the country during the past two years. If this had happened the democratic opposition would have had many more positions, and the Communists and nationalists would have had fewer.

Extensive unification of democratic forces, and above all in parliament, is more necessary now than ever before. But not on the basis of collective suicide, automatically following Gaydar down a blind alley, but on the basis of a radical revision of it. And it would be desirable, of course, together with Choice..., the government and the president, if they were to draw the correct conclusions in the December elections.

The question of the new constitution is closely linked to this. Specifically, it would be a great mistake to rely, as Vladimir Shumeyko and certain other figures close to the president are now suggesting, on the authority of the executive power enlarged in the constitution and the curtailed rights of parliament.

The main problem is that the Basic Law appeared on earth with grave inherent flaws. They were brought about by the secrecy of its development, the open pressure of free discussion, and the relaxed procedure for adoption, which allowed the constitution to pass with the support of only a few more than one-fourth of the voters.

An easy victory does not cost much, and the objective achieved at this price may quite well turn out to be illusory. A constitution that has not undergone the difficult test of the broadest public discussion, which does not fully reflect the balance of forces and the consensus of the main political forces in the country, which has not received the endorsement of the real majority of the voters—is not likely to really become the basic law of life of our immense state. Either the constitution will be transformed into an object of political confrontation from the very beginning or it will be simply ignored by all parties and will motivate them to search for nonconstitutional forms of struggle.

With a continuation of the previous policy, even if there are partial adjustments, the sociopolitical balance of forces will inexorably change in the direction against the president and lead to his isolation, and no written prerogatives will help him retain control of the situation. (Thus all of the extreme provisions turned out to be ephemeral for Mikhail Gorbachev in 1991.) But with a radical change in policy and the formation of a broad coalition in support of democracy and the new course of the reforms the domination of the president and the executive structures will be simply superfluous and excessively burdensome for them since it would impede efficient division of labor and responsibility among the branches of power.

Another extremely serious illusion is that conducting the reforms requires maximum concentration of power in the president and the executive organs. Proponents of "enlightened authoritarianism"—from Andranik Migranyan to Valeriy Novodvorskiy—are defending this idea especially actively now in light of the results of the election and the adoption of the new constitution. Well, we will have no problems with authoritarianism, we are used to that. The only question is how to ensure enlightenment.

Possibly during the times of Petr I, who adorns the emblem of Russia's Choice, there was no other way than to "write edicts with the knout." Probably even in our day there is no other way in a number of Asian countries. But for a nation that is basically European such a path holds no promise. Political oppression beats down the people's economic activity as well, and for market reforms, as distinct from Petr's or Stalin's, it is above all necessary to have lively participation, enterprisingness, self-expression, and self-respect of the largest possible proportion of the population. The state must merely direct them into a civilized, legal channel.

Hopes placed in the personal qualities of Boris Yeltsin, who will not abuse power, are completely naive, and not simply because man is mortal and his character can deteriorate, as the president himself recently admitted in an exchange with Eldar Ryazanov. The problem is much deeper. Authoritarianism gives the leader only the illusion of a free hand. But in fact by releasing him from restrictions imposed by the parliament, the courts, the press, and public opinion, at the same time it makes him a slave to the bureaucratic complex and a victim of intrigue and bickering among favorites for positions closer to the throne. They are the ones who stand to gain from authoritarianism, and not the leader-reformer.

As distinct from democratic freedoms and a system of checks and balances, a bureaucracy works unimpeded to refine the art of selecting information. It skillfully leads the leader to the decisions it needs, interprets their practical implications according to its own will, and does not allow the possibility of monitoring execution or obtaining an objective assessment of the results. An example of this—the long-awaited edict on the land—has already been provided during the short period of the presidential monopoly. They hastened to adopt it before the legislators could get in their way and it immediately turned into its opposite, strengthening even more the rural nomenklatura's power and possibilities of getting rich.

True freedom—within the framework of constitutional authority, of course—is provided to the leader only by a democratic environment that presents alternative sources of information and the possibility, in conjunction with the legislative and judicial powers, of controlling the bureaucracy. But this kind of system will not tolerate arbitrariness on the part of the president and will force him to engage in constant political work to ensure parliamentary support for his policy, and it will place high demands on the reputation of his subordinates to preserve the reputation of the entire administration.

It is understandable that democracy does not work according to the ideal plan anywhere. It certainly does not provide a guarantee against mistakes, and sometimes serious ones. The point is this: the absence of democracy, regardless of the personality of the leaders, guarantees mistakes and the impossibility of correcting them promptly and, ultimately, the failure of the policy and the state. This pertains fully to the current Russian reforms as well.

In an authoritarian system the leader will very soon be forced to serve the interests of the nomenklatura and above all its power structures. Otherwise they will simply remove him or make him ineffective. Both Khrushchev and Gorbachev learned this through experience. On this plane, the fact that the Third Army, in spite of an order to vote for Choice..., voted for the LDPR [Liberal Democratic Party of Russia] is as alarming as it is explicable.

With respect to the army, President Yeltsin committed one of the most serious of his mistakes, and it was of a dual nature. On the one hand, in two years nothing was done to establish effective political control over the army. On the other hand—the military were drawn into internal political conflicts against their will, which reached its culmination in October. Both of these are dangerous individually, and together—even more so. After the elimination of the army political organs the armed forces were essentially left on their own. In order to survive under the conditions that have developed in recent years they needed radical reform. But no state department anywhere is ever able to reform itself. The more so one like the military: with its rigid hierarchy, deep traditions, enormous departmental structure, and the existing economy. Without strong and purposeful political leadership the reform of the army was clearly doomed. It did not succeed, and as a result even the concept of "military reform" disappeared from the recently adopted military doctrine.

The army ended up in an extremely difficult condition: the state did not have the funds to reduce and reorganize it and there was no money to maintain it at its present size. Hence the growing dissatisfaction among the military because of the failure to solve numerous problems, of which the shortage of housing, the failure to pay salaries, and the shortages in recruitment are only the most critical.

Political control of the army cannot be based on good relations between the president and the minister of defense. Personal factors are too fragile and changeable a basis for such a complex and important matter. Real political control over the army is possible only under two conditions: the existence of a civilian ministry of defense with its own apparatus and the active role of parliament in all aspects of defense policy. These are indispensable conditions for a democratic structure. There are democratic countries that have no armed forces at all, but there is no country with an army that does not have the two aforementioned conditions for civilian control. And, conversely, in all authoritarian regimes the military is in charge of the ministry of defense and frequently combines this post with the presidency. It is not without reason the Soviet leaders too (Stalin, Brezhnev) loved to amuse themselves with high military ranks and luxurious uniforms.

All this is no accident and it is certainly not a matter of the intellectual and psychological peculiarities of the military. The essence is that institutionally the most intelligent and peace-loving military leader in the post of minister of defense will always be a representative of the army in the government. And the most narrow-minded and rigid civilian person will always be a representative of the president in the army and a proponent of his policy. The minister is also the intermediary between the military and the parliament, which raises difficult questions and checks on efficient expenditure of allocations.



The new constitution and military doctrine have established practically complete elimination of parliament from military affairs. All control has legally been placed in the hands of the president, but this is merely on paper. In fact he remains one on one with a giant military establishment and himself is dependent on it. This "feedback" is so great that the army is drawn into internal political conflicts in an inadmissible way and has actually been made the arbitrator in their resolution.

Indeed, during the October events the armed forces against their will had to choose for themselves which president and minister of defense to obey. And then they had to perform functions that are not appropriate for the army, which dealt a stronger blow to the prestige and moral condition of the army than August 1991 did. Even worse is that these functions have now been officially assigned to the army according to the new military doctrine, as though we do not have enough internal forces, specialized subdivisions, and OMON's [Special Purpose Militia Detachments].

Voting for the LDPR is not only a sign of protest against the terrible disintegration in the armed forces. And it is not only a response to Zhirinovskiy's military-patriotic advances. To an enormous degree it is also an expression of an attitude toward the October events, a strict warning to the head of state.

And no purges or punishments will help here. They will alienate the military even more and place them in opposition to the political leadership. We need an in-depth reinterpretation of the policy of the Russian leadership in the military sphere and a radical change in the mechanism for political control of the army and the decisionmaking system. Regardless of what the level and composition of the armed forces may be, the army must be fully provided with everything necessary to carry out its tasks, occupy a worthy position in society, be under effective civilian control, and be completely removed from deciding issues of internal politics.

Today everything is proceeding in precisely the opposite direction. If things continue this way, the army will decide that it can remove and install presidents. (And here Russia has the great traditions of the Streltsy, the Preobrazhensk units, and the Semenovites.) Relying on force is a double-edged sword and it is far from being as obedient a weapon as it might seem. The power game is a game in which democracy will always be defeated. In this game President Yeltsin will find stronger and more perfidious rivals, and they will not be linked to the turbulent history of 1991-1993.

Democratic reforms in both the economy and politics may be carried out only within the framework of a rule-of-law state, on the basis of a balance of interests of all nonextremist groups of the society. Force creates only the illusion of a rapid and radical solution to problems. In fact force cannot solve a single problem of democratic construction; it only exacerbates problems and produces diametrically opposite results.

### Deputy Minister of Economics on Strategy for Economic Reforms

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[Article by Valentin Fedorov, Russian Federation deputy minister of economics, and Stella Boyko (Russian Academy of Management): "Nature of Economic Mistakes"]

[Text] Mistakes in economic policy are inevitable under any system of management. However, the degree of their gravity is different. In order to reduce the probability of committing new errors, it is necessary to analyze the objective nature of their occurrence.

Let us first turn to the market (Western) economy. Developing cyclically, that is, when from time to time a boom is interrupted by an absolute slump, it thus is able to check the quality of its existence during relatively short periods of time and, having adopted a healing measure in the form of an overproduction crisis, eliminates the disproportions and moves forward. A happy surprise can befall it on this path: while cyclicity is maintained, it can enter the phase of accelerated advanced transformations for decades. Not every national economy manages to realize such a chance. The point is that two types of progress are characteristic of the economy.

The first—a cyclical ascent upwards, as though climbing along the spiral to the Tower of Pisa. It does not depend much on the economic management of the authorities. Even if the worst variant is allowed, that is, for some reasons the government would hamper a recovery from the cyclical crisis, the movement of the economy itself would break the resistance of the administration. By now Western economic science has developed a number of generally accepted rules of anticrisis policy. Fulfilling them, the government can save its face even if these rules are incorrect from the point of view of their positive effect on the final result (it is impossible to prove anything mathematically). The cyclical crisis contains the automatism of overcoming itself in a short space of time.

Consequently, the sense of the policy of management in countries with a market economy lies not so much in eliminating the cyclical upheaval as in solving another problem: how to lead the economy to a higher plane of development, that is, to ensure conditions for the second type of progress.

Economic history gives several facts of this type. One country or another, which until a certain time was not noted for special economic advances, suddenly begins to sharply outpace its competitors in key indicators. Germany and Japan have become chrestomathic examples. New industrial countries in Southeast Asia are now making a spurt. At one time Soviet science did not ignore this matter. However, it examined it from its own specific point of view. Many works on the unevenness of

economic and political development of countries during the era of imperialism were written for the purpose of searching and substantiating the weak link in the chain of imperialism, which falls out from it and becomes socialist.

Be that as it may, not every country and, all the more, not every government is lucky history-wise. Therefore, cases of an economic spurt are extraordinary. They do not lend themselves to forecasting and, owing to their isolated nature, are not subject to generalization.

The situation with a centrally managed economy looks different. A cyclical movement is absent here and, therefore, even the minimum of (cyclical) progress contained in the genes of capitalism is not guaranteed. However, we did not need the minimum, because the planned system set for itself the task of attaining the maximum possible on the basis of the fact that everything can be envisaged and calculated. Here, however, we have encountered a phenomenon, which has not yet been fully recognized in our country. It is a matter of the unknowability of the economy.

Unknowability of the economy begins from an analysis of its past. First, with a potential multiplicity of variants only one variant is realized and, in principle, it is impossible to calculate or demonstrate whether it was optimal. It is only possible to assume, taking into consideration political, moral, and military factors, which do not lend themselves to a quantitative measurement. During an evaluation of the past, public opinion can lean toward any side, which is represented, for example, either by a single monopoly opinion, or by a majority of votes, or by disarming eloquence. Second, similar insurmountable difficulties arise during a retrospective analysis of the most realized variant of development and during the clarification of the question of what affected it to a greater, and what, to a lesser extent, and whether everything that affected it is known.

Third, it is impossible to grasp the intricacies of current economic development at every moment.

Economy as such is the absolute truth and only its small part is accessible to us. Possessing only relative truth, during the Soviet era we used the entire power of the state apparatus for the formation of a process, the scale, structure, and nature of which were not clear to us from the very beginning. The nature of past economic mistakes lies precisely here.

State planning did not withstand the gravity of assumed responsibility and the economy secured by nothing fell into a crisis, which differs from the cyclical one by the fact that it does not contain any self-overcoming automatism. They strove for the target maximum, but fell below the market minimum. During favorable periods, when the planned economy externally demonstrated tangible achievements, cardinal disproportions ripened and large-scale flaws were allowed in it. When they became obvious, their elimination occurred according to the same scenario: the rectification of the situation

simultaneously created foci of new omissions and even crimes, for which we had to pay during and after decades.

The sum of economic knowledge available today objectively permits neither us nor the West to declare ourselves dictators of such a most complex phenomenon as social reproduction. The experienced West does not even try to do this and, therefore, does not make mistakes similar to ours. Local experts understand the fundamental self-regulation of the market economy. They reduce the economic role of the state to fine tuning, correctly thinking that decisive proportions determine the market. Of course, the development of productive forces forces the state to participate in economic life to a greater extent than earlier. However, even in the era of computers and information science it is aware of its secondary role. Private property gives rise to a natural movement of things. It creates a superstructure over itself and redistribution relations, which, clashing and becoming balanced in varieties among themselves, ensure the functioning of the entire economic mechanism.

What is the way out? The continuation of previous economic policy would be hopeless for the country. However, giving it up, it would be incorrect to copy criteria for market behavior characteristic of Western functionaries (as yet there are no real prerequisites for this). We face another kind of task: to lead the country to a guaranteed (cyclical) minimum of progress. We cannot wait any longer. The present situation creates for Russia a growing lag behind Western powers, whose economy goes forward despite any crises and contradictions.

The market system steadily becomes complicated and this, perhaps, is the most dangerous factor for us from the point of view of the strategic race. The complication of the economy involves a constant and intensive enrichment of Western experts with new knowledge, which, in turn, improves the quality of state economic management. Right now Western economists possess a bigger arsenal of knowledge than our science and practice. Our own chance should be seen in the development of a market nature of the economy, which will ensure its efficiency in all cases, even with the current mistakes of the country's administration. The latter should concentrate on the main question—how to lend an additional speed to the development of the market. Only then will the chance to carry out the second type of progress become realistic.

Thus, in order to be equal in potentialities with market countries, we will have to meet two indispensable conditions.

First: to accelerate the development of the market environment.

Second: having discarded the burden of microeconomic concerns, state bodies should create for the economy strategically favorable conditions for a long boom. This



requires high professional competence. We can acquire it only with our own experience and only after the realization of the first condition.

### **Economic Prospects for Nineties, Government Role**

944E0368A Moscow *SEGODNYA* in Russian  
4 Jan 94 p 8

[Article by Rustam Narzikulov under the rubric "Expert Opinion": "The Liberation From Superliberalism; the Decommmercialization of the Russian State"]

[Text]

### **Institutional Changes**

Two main features have shaped Russia's economic development during the last decade of the twentieth century, during which the country was trying to create normal market institutions. The first was a complete absence of private capital at the initial point of the economic reform started in 1992. From this standpoint the 1990's may be called the era of post-Soviet initial accumulation of capital. The second characteristic trait of the economic and political system of the country was an extremely weak state, completely destroyed during the post-communist period.

The combination of these two features created in Russia an extremely peculiar economic environment that did not exist in any country implementing reforms. Other former socialist countries also encountered the absence of private ownership, but in none of them was the deterioration of state ties so all-encompassing. Therefore in Russia, despite the attempts to apply canonical and overall correct methods for creating a market, the result was the emergence of a unique economy.

In general terms it may be characterized as liberalism pushed to the extreme and made possible by the powerlessness of the state, or superliberalism. In whichever economic sphere the state attempted to operate (prices, money, the budget system, privatization, foreign trade, and so on), at best it was able to set general directions for development, but all attempts at purposeful regulation were unsuccessful. This happened because the old mechanism of macroeconomic management, which went under the name of "bargaining over a plan" or "bureaucratic capitalism," did not disappear as the old state disintegrated; it only transformed itself.

Some state bureaucrats, who retained control over production links, budget means, and the ability to distribute (not goods, as before, but this time subsidies) began to swell the ranks of the fast-growing entrepreneurial class. Others, who stayed in the service of the government and local authorities, for all practical purposes commercialized the state mechanism, for their interaction with business predominantly occurred in the form of remunerative relations. The state apparatus turned into one gigantic commercial company or, to be precise, a whole

system of companies linked together by complex interconnected interests and mutual obligations.

The all-out commercialization is that superliberalism by whose laws Russia lived and which immediately scared the foreigners terribly. The subjects of developed Western countries were used to competing within the framework of rules established from above, in which whoever finds the best combination of utilizing these rules, wins. In the Russia of the beginning 1990's, the winners were those who could maneuver the state into rigging the rules in their favor. Russia also began to scare the West by its new penetration of world markets since, having gotten used to the conditional nature of any imperative, Russian businessmen began to break the established rules of the game in this area as well (first and foremost by engaging in massive dumping).

Today the situation is beginning to change. The era of initial accumulation of capital has practically come to an end; a class of proprietors has formed who are becoming increasingly unhappy about the commercial nature of relations with the state. They are sick and tired of engaging in unlawful contact with all bureaucrats, from tax inspector and Central Bank teller to prime minister. A powerful social force has emerged—class solidarity of the new bourgeoisie in their struggle against a specific government business. On the other hand, after the "great reshuffling" of property had been completed, the state lost the underpinning of its commercialization. Bureaucrats' opportunities for business activities declined sharply. The state is beginning to increasingly engage in what should be its principal business: setting the rules of the game in the market. This arbiter, however, still does not shy away from a bribe and whenever possible will not miss the opportunity to profit from the problems of others. It is quite risky to engage in it now, however, since most businessmen believe that it is more expedient to complain about a bureaucrat than to bribe him.

### **The New Economy**

At first glance the current sectoral structure of the Russian economy is less progressive than 10 years ago. The share of the primary sector has increased (mainly due to the growth in the mining industry while the proportional share of agriculture remained unchanged); the share of the processing industry has declined, among other things at the expense of complex, science-intensive production sectors. This, by the way, has been taken up by the political opposition, which maintains that the fathers of the economic reform are leading the country into deindustrialization.

Upon closer inspection, however, it turns out that the situation with respect to the economic structure is not that bad, to say the least. True, the primary sector's share has increased, but is it bad for the country to expand production of oil and gas, which until now had produced the bulk of our hard currency earnings? Moreover, market reform made it possible to attract gigantic foreign investment into the mineral deposits so difficult to

develop that it is unlikely they would have been utilized under the old system. Besides, expansion of the primary sector is a temporary phenomenon; it is just that initially for both domestic and foreign capital it was the most attractive sphere of investment.

The proportional share of the processing industry has declined, but not because the country took the road of technical regression. The reason is that in the former USSR between 70 and 80 percent of this segment one way or the other was linked to the military-industrial complex. And it is quite natural that sharp cutbacks in military orders could not help but result in closings of gigantic plants producing all sorts of armaments.

And, finally, the most convincing argument against all talk about "moving backwards" is the fast-growing tertiary sector—first and foremost the banking and finance segment, and information and transportation sectors.

The real problem, however, is that now, after the initial structural shifts, which have led to a normal sectoral equilibrium, economic development faces two alternatives. Russia will either begin pulling itself up toward the models of developed countries of the West (reduction of the primary and secondary sectors as a result of the fast growth of productivity in them, the growth of the tertiary sector due to general computerization, a growing service industry, etc.), or the current, not the most advanced economic structure, will be preserved and Russia will land for a long time in the category of medium-developed states of the "Third World." This is where the new Russian state should say its word in the environment of rejecting that very "superliberalism"—state mechanisms should facilitate fast technological development.

We should count among the obvious achievements of the reform: radical changes in the monetary sphere. They may be briefly characterized as follows: "Russia now has real money." Of course, in the past, too, the Central Bank issued national currency, but its periodic and unpredictable devaluation by tens of percentage points a month caused people to mistrust it. Let us recall 1993 [as published], when dollarization of the country and the flight of capital abroad have reached an apogee, foreign assets of Russian commercial banks exceeded by a factor of two all exports from Russia, and the total volume of hard currency in the hands of the population exceeded by the same factor the ruble aggregate M0 [cash money in circulation]. Today the inflation figures are quite presentable—a modest 15 percent a year. One does not have to explain how it has affected the entire economy.

On the other hand, strange as it may be, a stable ruble and the success in combating inflation aggravated the Ministry of Finance's problems. While in the past a budget deficit could be covered by excessive monetary emission, now the Ministry of Finance is experiencing great difficulties, since the Russian "middle class," not used to honestly paying taxes, is trying to evade this unpleasant procedure by all possible means. As a result, tax evasion reaches 60 percent. The minister of finance

said angrily that if his compatriots "do not like paying taxes," perhaps they will consider deductions into the budget as charitable contributions to the treasury.

Tax evasion also is linked with the shadow economy, which has remained in place to a great extent. A considerable number of small- and medium-size businesses still combine legal and semi-legal forms of business activities. And only major industrial giants such as Gazprom, YuKOS, LUKoil, and old foreign trade companies (Moskva-Nafta, Uraneksportprom, and others) attempt to work Western-style, which, by the way, is what attracts Western investors to them. At the same time, the confidence of partners and consumers is beginning to be seen increasingly as a serious intangible asset of a company, which creates certain preconditions for the decline of shadow business.

The unemployment picture presents a paradox. Contrary to expectations, its perceptible growth fell not in the years of greatest structural shifts, when armaments production was being cut at a fast rate and previously subsidized enterprises were closing (1994-1996) [as published] but in later years, by the end of the century, when, it would seem, the main structural problems had been resolved. Unemployment "arrived late" due to an initial extremely low level of the national wage. In 1993-1996 [as published] the average wage was no more than \$50 a month: at this kind of wage one does not need to invoke the Phillips curve to explain low unemployment rates. Extremely cheap labor made it possible for the authorities to forget about employment problems in those years.

Then the situation changed, however. A fast rising standard of living in the society plus hired labor's awareness that wages should include all social costs—in the past borne by the state (housing, education, child rearing, health care)—caused an unprecedented rise in the national level of income. Today the average wage is \$450 a month, and the young people's expectations are much higher. Simultaneously with the growth of income, unemployment began to rise. From the initial 1.2 percent (the lowest in the world) it rose to 5.7 percent—not too high to speak of a catastrophe, but not too low to ignore it.

It is unlikely that local methods (paying allowances, retraining, public works) will help in combating this social ill. A more effective method is increased investment and better competitive standing of the Russian economy, which actually coincides with the general goals of future economic development.

#### **IZVESTIYA Article Critical of Fedorov's Radicalism in Reforms**

944E0359A Moscow NEZAVISIMAYA GAZETA  
in Russian 5 Jan 94 p 1

[Article by Ivan Zasurskiy under the rubric "Reforms":  
"The Dualism of Boris Fedorov: Any Radicalism Will  
End Up Crossbreeding Hedgehogs and Grass Snakes"]

[Text] Boris Fedorov has always been considered a liaison between Russia and the West, which attached a certain weight to him in Russian politics. In the past his unwavering intent to achieve financial stabilization by any means went hand in hand with the confrontation strategy of the Kremlin. It would be interesting to see whether this politician is undergoing an evolution.

The minister's new year's article in IZVESTIYA is indicative; in it, he appraises the current reforms and offers some forecasts regarding the development of the Russian economy in the event of a change of course. The inveterate radicalism of the very first phrase of this press communication by the deputy prime minister makes one shudder: "The current financial policy brings out a harsh reaction on the part of the opposition. This means that we have succeeded in implementing a consistent financial policy." More quotes: "...cutting through fierce resistance put up by the Central Bank and a number of members of the government," "...despite the resistance on the part of the Central Bank and various sectoral lobbies," "our unceasing fight against the Supreme Soviet, the Central Bank, and sectoral lobbies in the government."

Whether Boris Fedorov wants it or not, he is not only the minister of finance, but also a politician; and while the first part of the article, in which he relates the accomplishments and the fighting, shows us the minister of finance, only Fedorov the politician could propose a minimum program for any cabinet for the next year.

What is included in this minimum program? Ensuring truly positive interest rates in order to attract savings and "paying reasonable compensation from noninflationary sources to citizens for losses incurred because of liberalization." The population's real income should increase from \$100 to \$250 a month. It is necessary to introduce tax regulators that will reduce the gap between the rich and the poor. Inflation should be brought down to 5 percent a month—an equivalent of 80 percent a year—in the nearest future. As the budget deficit is reduced to 5 percent of the GNP and below, the tax burden on producers of goods can be reduced.

Following that, in order to scare the reader, Boris Fedorov presents a list of horrors that will befall us in the event of abandoning the reform: prices rising at 2,000 percent a year; an exchange rate of 10,000 rubles for a dollar; an increasing dollarization of the economy; fixed prices on some goods and confiscation of money in the banks; and a shortage of goods. Of course, one senses in this juxtaposition a single-vision perception of the development of the Russian economy (if we do not achieve stabilization we will get "Ukrainization") and the same complete lack of substantiation and fanatical adherence to the "party line." "God save Russia from deviating again from the correct road," Fedorov ends his article.

How does Boris Fedorov intend to solve the problem of employment and raise the population's average income considering that 10 million people will have no job at all,

and enterprises that have not gone bankrupt will nevertheless be unprofitable because of the low exchange rate of the dollar? What expenditures will then be required for maintenance of law enforcement organs? How does one bring inflation down considering that any tightening of the money supply produces only a cash crisis? Why, finally, can we today try to index people's savings "through noninflationary monetary means" while only yesterday this was rejected under a threat of hyperinflation?

There may be only one answer to all this: I am the minister of finance; these are not my problems. However, while such a position on the part of the minister of finance is completely consistent and beyond reproach, can Fedorov the politician—a man who should be aware of what results his departmental zeal will produce—formulate the issue this way?

"We should stop attempting to crossbreed a hedgehog and a grass snake—as is known, the product of it is barbed wire. The elections gave us a warning," wrote B.G. Fedorov. Fedorov is wrong. The elections did not give us a warning. The Russia's Choice radicals lost the elections. And they lost not to communo-fascists, as had been expected, but to a new force, capable of using social discontent to a highest degree. And if we consider that, Russia either needs to be crisscrossed either by a hedgehog-grass snake hybrid right now or we have to realize that the country on which we conduct experiments in fighting inflation by monetarist methods will fall into Zhirinovskiy's hands in 1996. And it will again end in hedgehogs and grass snakes.

#### Marketing Expert Predicts Prices for 1994

944E0357A Moscow ROSSIYSKAYA GAZETA  
in Russian 6 Jan 94 p 2

[Interview with Vyacheslav Nefedov, director of the All-Russia Consumer Market and Marketing Research Institute, by ROSSIYSKAYA GAZETA correspondent Lyubov Volkova; place and date not given: "The More Money, the Lower the Standard of Living? Price Forecast for 1994"]

[Text] We are still inclined to visualize prices as something akin to vicious watchdogs, who suddenly lunge from around the corner and bite the passerby overcome with fear. And in fact this is the way it is. But actually, there should be nothing sudden in this. We have a right to know what to expect, what to be prepared for, in order to protect ourselves, our families, our business.

What sort of prices should the Russians expect in the coming year? Our correspondent posed this question to Vyacheslav Nefedov, director of the All-Russia Consumer Market and Marketing Research Institute.

[Volkova] Vyacheslav Konstantinovich, in January 1993 you warned that by the end of the year prices would rise on average 10-fold. While politicians and economists close to the ruling circles maintained that prices would



rise no more than three- to fivefold. Their forecast had proved wrong as early as in the summer. To what extent has the forecast of your institute's specialists turned correct?

[Nefedov] Our forecast had been right on the dot. Prices for foodstuffs and nonfood consumer items rose over the year on average by a factor of 9.7-10.5. Rye bread now costs 9.2 times more than a year ago; wheat bread—9.8 times more; beef—10.1 times, and poultry—10.4 times more. There are also some products whose prices have shot outside the forecast range. Bologna prices rose almost 12-fold, milk—12.5-fold, and cabbage—15.6-fold. Onion prices increased more than 18-fold.

Not all food prices rose at this rate. Prices for rice rose only 3.5-fold, sugar—7.4-fold [copy unreadable], and domestic tea—7.7-fold [copy unreadable].

[Volkova] We are being told that lately inflation amounted to 7-7 [copy unreadable] percent a week. Is this true?

[Nefedov] No. According to our data, prices for consumer goods rose in November by 23 percent, and in December, according to preliminary estimates—by 25 percent. The average price level was held down, however, by the seasonal factor; that is, prices for potatoes and some vegetables so far have remained level, as well as those for sugar, since its processing is still continuing. Prices for seasonal products will begin to rise, however, any time now.

[Volkova] What is your forecast for the year?

[Nefedov] We are still continuously threatened, first, by hyperinflation, and second, by a budget deficit. The mechanism that stimulates expansion of production still has not kicked in. The operational principle is: Raise prices and you may survive. Production of daily necessities continues to fall—by 10 percent in 1993. All in all, over the past two years production declined by 25 percent. And the decline is the same in the production of both foodstuffs and nonfood consumer goods. Only alcohol production remains high.

Overall, our forecast for 1994 is this: prices for consumer goods will continue to rise. By how much? It is very difficult to come up with specific figures, since we do not know what the government's fiscal and monetary policy will be. To be on the safe side, we offer two forecast scenarios.

First scenario. If a tough monetary policy is implemented (that is, the growth of the population's monetary income is restrained by imposing restrictions on enterprises in all economic sectors), prices will rise over the year fivefold on average.

Second scenario. We call it moderate. According to this scenario, prices will rise by a factor of 7.5-8.

[Volkova] This is considered moderate—like we had in 1993?

[Nefedov] No, 1993 went beyond moderate. By moderate we mean that some slack will be permitted with respect to unprofitable enterprises or even entire sectors under various pretexts.

In our opinion, as the year begins, the difference in the rate of price increases for foodstuffs and nonfood consumer goods will begin to increase. Prices for foodstuffs will be rising faster. Under the so-called moderate scenario, the population's standard of living declines faster. It is a paradox: people are paid more, but the standard of living falls. The gap between income and prices continues to grow. The demand for foodstuffs will rise, since many people will have to give up purchases of nonfood items. Bread prices will continue to rise, since for many it will become the main nutrition staple. The low-income group of the population already spends up to 80 percent of its income on food; the medium-income—50-60 percent, and high-income group—25-30 percent. Stratification will become even more noticeable.

[Volkova] Well, this is unquestionably not a reassuring forecast. Why are you so certain that you are right?

[Nefedov] There are many amateurs now in the sphere of price forecasting. We are professionals. We have more than 30 years of experience in studying the domestic market. Our institute is engaged in consumer market research; we study how it forms and functions. In the past we were the head institute, with branches in all Union republics. Now instead of branches we have retained trade agents from among former branch associates, and currently receive and process information from Georgia, Moldova, Ukraine, and so on. One has to know what is happening around Russia before attempting to forecast the situation here.

[Volkova] Where does your information go?

[Nefedov] We are under the Russian Federation Trade Committee and send all our reports there.

[Volkova] Does your information reach the politicians?

[Nefedov] It does not look that way.

**Chairman of 'Rosshelf' Gas Company Interviewed**  
944E0357B Moscow RABOCHAYA TRIBUNA  
in Russian 6 Jan 94 p 2

[Interview with Boris Nikitin, chairman of the board of the all-Russia joint-stock society Rosshelf, by RABOCHAYA TRIBUNA correspondent Viktor Andriyanov; place and date not given: "A Smart Man Will Not Climb a Mountain: But a Wise One Will Descend to the Bottom of the Sea in Search of Light and Heat"]

[Text] Introducing our interlocutor: Boris Aleksandrovich Nikitin was born in 1940 in Saratov. He graduated from the Moscow Petroleum Institute and is a candidate of technical sciences. He worked for many years on Sakhalin and in [the Republic of] Komi as a worker, shop foreman,

chief engineer, general director of major production associations, and a first deputy of the USSR minister of the oil industry. Member of the board of the RAO [all-Russia joint-stock society] Gazprom.

[Andriyanov] Boris Aleksandrovich, a year ago there was a wave of articles about Rosshelf in all the newspapers. Grandiose plans were outlined. And then—it was as if all the information were put under lock and key....

[Nikitin] The Rosshelf joint-stock society was registered in May 1992. In 1993 we were granted licenses to develop two major deposits—Shtokman and Prirazlomnyy. We have accomplished a lot of preparation work, and only now can we tell about it. This interview to RABOCHAYA TRIBUNA is my first.

[Andriyanov] Thank you. So what has been done?

[Nikitin] Let us first look at the map, so that our readers will have a better understanding what we are talking about. The Shtokman deposit is located in the Barents Sea. The depth is considerable—more than 300 meters. Very difficult climatic conditions. We cannot apply the experience of development in the North Sea over here. The size of the gas deposit is enormous. It will have an impact on both the domestic and the foreign gas market.

We are currently putting together a technical and economic justification for the development of the Shtokman deposit. This will require completely new technology—for instance, platforms capable of working at a sea depth of more than 300 meters.

[Andriyanov] Can domestic industry handle it?

[Nikitin] Of course; that is the point—to make use of enterprises undergoing conversion. I think that the actual implementation of this project will begin in 1994.

[Andriyanov] Such large projects also require large investment....

[Nikitin] Unfortunately, in 1993 we have been able to invest half the planned means. The gas industry, however, just like the oil and coal industries, cannot live without long-term planning. Old territories and deposits get depleted, mines die out. We need to work on new ones ahead of time. This is for the sake of the future of the country, the prospects for our children and grandchildren.

[Andriyanov] The mining and oil industries are currently losing more capacities than they put on line.

[Nikitin] Fortunately, this has not happened to the gas industry. The policy of the RAP Gazprom and its chairman, R. Vyakhirev, is oriented toward development of new major deposits. This is the precondition for normal work of the sector, and the entire industry.

One could do even more, but the current economic situation literally binds everyone, hand and foot. Still, Gazprom as a powerful, major firm is conducting a

policy aimed at the future, and it takes into consideration what will happen in five, eight, 10 years....

[Andriyanov] Had we not had such a firm, had we not had a Unified Gas Supply System....

[Nikitin] It would be very difficult, or perhaps even impossible, to finance the volume of development we are now doing on the Barents Sea shelf and at Yamal, which is mostly being worked by Nadyngazprom enterprises. We hope to increase investment next year.

[Andriyanov] Boris Aleksandrovich, speaking about the gas industry overall. This is probably the only sector that has avoided—let us knock on wood—the general decline. What is the secret?

[Nikitin] There is no secret. Fortuitous organizational changes were made when it was still the USSR Ministry of the Gas Industry. The sector has gradually adjusted to the real conditions emerging in Russia. In RAP Gazprom each stockholder has a stake in the final result of common activities. In short, what has emerged is a company capable of realistically competing not only in the Russian market, but in foreign markets as well. Gazprom found its niche in a market economy.

[Andriyanov] Why do you think this has not happened to the oil industry?

[Nikitin] By concentrating its means, Gazprom is able to support major projects. You tell me—what company could afford the development of Yamal or the shelf?

The crisis deals a blow first and foremost to projects requiring investment. To save them, major investment is needed. The oil industry currently does not have anyone to bring it under one roof. Formally, a concern apparently includes the entire chain—from extraction to the production of the final product; but in real terms, it has remained compartmentalized. And on top of that, constant delays in payments....

[Andriyanov] We have seen the results of this in Nadyma....

[Nikitin] Nevertheless, in such an explosive situation Gazprom has been able to maneuver resources in a timely manner and to take the necessary measures.

[Andriyanov] It appears that the social explosion in Nadyma was the result of the current economic policy.

[Nikitin] Policy is consistency. You see? A smart man will find a way out of a situation. A wise one will make it so that such a situation does not develop.

[Andriyanov] You mentioned the Prirazlomnyy deposit at the beginning of our conversation. Is this also at sea?

[Nikitin] Yes, it is located in the Pechora Sea, or, to be precise, in Pechora Bay. It was discovered two years ago. The first well produced oil; the second was not unsuccessful.

This year the Arktikmorneftegazrazvedka, on a contract from Rosshelf, drilled Well No. 3. It produced a very good output—about 700 tonnes of oil a day. It is a rich deposit, and next year we plan to increase considerably the volume of operations there.

In addition, we are studying the shelf adjacent to Yamal; it is a very promising territory. The deposits there are estimated to contain 7-10 trillion cubic meters of gas.

Production decline as deposits get depleted is an objective occurrence. This disbalance cannot be corrected by resolutions. What is needed is new technologies, resource-saving, and most importantly, new deposits.

[Andriyanov] Thank you, Boris Aleksandrovich. RABOCHAYA TRIBUNA is prepared to introduce a permanent rubric on the topic of development of Yamal, the Shtokman and Prirazlomnyy deposits.

[Nikitin] This will help us all. And the people who work in these extreme conditions will be grateful to the newspaper for its attention to their efforts.

#### Financial Machinations of Narodnyy Bank Revealed

944E0377A Moscow RABOCHAYA TRIBUNA  
in Russian 12 Jan 94 p 3

[Article by Leonid Chirkov: "And the Bank Just Nods and Keeps Doing Its Own Thing"]

[Text] There was a certain period of time when the main cause of delays in clearing were "bottlenecks" in integrated clearing centers of the Central Bank of Russia. Then they dissipated. Delays in payments still occur, however. But now for a different reason. Some banks shamelessly keep their clients' money in the turnover for their own profit. At the same time, they try to blame those same clearing centers or technical errors, or sometimes computer breakdowns.

We have already reported to our readers (RABOCHAYA TRIBUNA, 17 December) how uncereimoniously the commercial Narodnyy Bank treated its client, Moscow's Main Health Care Administration, in December, leaving thousands of health care workers in the capital city without salaries.

In January the situation repeated itself. And with the same deplorable outcome for hospital and outpatient clinic employees. On 4 January, on the eve of payday for doctors, medical attendants, and other health care employees, the Government of Moscow's Department of Finance instructed Narodnyy Bank to transfer from its account to the account of the city's Main Health Care Administration 17.62 billion rubles [R]. However, the money had not left Narodnyy Bank on the 4th, or even on the 10th. Thus, over seven days this money, which the bank kept in circulation instead of carrying out the client's instruction, brought it—even at an interest rate

of 210 percent (within Central Bank's official clearing rate)—R700 million tax-free profit.

Actually, of the payment order of its client—Moscow's Department of Finance—Narodnyy Bank did deign it appropriate to transfer....R1.7 billion. When the client complained indignantly, the bank simply dismissed it: "The machine probably failed to print an extra zero," they said. Meanwhile, though, the clever bank did collect almost R700 million in interest.

This is a good time to bring up another subject as well. Narodnyy is one of the few commercial banks which, with the snobbishness of the former State Bank's branch, loans out money from its clients' accounts. At the same time, however, it does not find it necessary to share the interest earned on these loans with the owners of this money. To this day, Narodnyy Bank has not entered a single kopek in interest on the so-called residual money into its clients' accounts.

In violation of all norms established by the Central Bank, Narodnyy Bank uses an impermissible great share of its clients' money for loans in the high-risk zone—to various limited liability partnerships and joint-stock companies. Which are unable to pay off these loans. And the bank, as we have seen, cannot make good on its liability to the clients.

The only thing that is hard to comprehend is why they get away with all these mercenary transgressions.

#### Government Fiscal Policy Blamed for All Economic Ills

944E0377B Moscow RABOCHAYA TRIBUNA  
in Russian 14 Jan 94 p 4

[Article by Vladimir Kokorin, economist with an automated production line plant, under the "A Viewpoint" rubric: "The War on Inflation: It Will Be Unsuccessful Until We Begin To Restore Production and Create a New Economic System With a Mechanism for Stabilizing Prices"]

[Text] Moscow—The cause of the economic collapse undoubtedly is in miscalculations of a conceptual nature: in an extremely simplistic, superficial, and one-sided understanding of economic processes and practical actions stemming from it. They are aimed at improving the financial system in the environment of falling production.

Inflation has been declared the number-one enemy. Of course, it is dangerous for the economy. However, it can only be a number-one problem in two circumstances.

First, when it is the only problem. When, for instance, the economic organism is already healing and all that is needed is to bring the temperature down. Second, when it represents the main cause of production decline. Obviously, the former is not the case. But neither is the latter.



Inflation becomes the main cause of a decline only when devaluation of money is happening so swiftly that money ceases fulfilling the function of an equivalent of goods; when barter develops or other countries' currencies take the place of the national currency. Thank goodness, we have not yet reached this point, although it is still possible.

Currently, however, the main cause of the production decline is not inflation, but rather fighting it by the method that the government is using. It tries in every way possible to restrict the money supply, to deprive the fire of inflation of combustible material, but forgetting that this material (money) is the prerequisite for commodity turnover and production. Hence the nonpayments crisis, or a crisis of commodity turnover, which gradually grows into a production decline.

Next. We are witnessing a transition from a state monopoly to a monopoly of private individuals and groups. But while the state as a public institution cannot pursue only the goals of financial gain, this is precisely the goal of individual- and group-based monopoly. Hence a sharp decline in income and demand on the part of the majority. Which also begets a nonpayments crisis, turning the latter into a classic crisis of overproduction and distribution. The government nevertheless refuses to restore the income and demand of the majority through indexing.

The main factor of the decline, and hence the number-one enemy, in our situation is not inflation—it is that the instruments that are used in fighting this ill are impermissible in a civilized economy. It is assumed that as soon as financial policy is truly tightened and subsidies dropped—in short, production is taken to the so-called “bottom” of solvent demand—inflation will immediately stop, and the long-awaited structural restructuring will begin.

These assumptions are far removed from reality, which actually has been confirmed by the practice of radical reforms. The point is that this so-called “bottom” of solvent demand is in itself not stationary, and is moving downward in the process of implementation of reforms. Or we may use this metaphor: as it goes down, the sinking ship of the Russian economy encounters an underwater current that pulls it into a deeper spot.

Of course, there is a limit. It will be reached when the surviving enterprises are able to reach an agreement among themselves on prices and salaries, but meanwhile the decline may be catastrophic.

The number-one problem now is to restore production and create a foundation of an economic system that will contain in it a mechanism of stabilizing prices.

We have to do everything to enable producers to reach an agreement on prices among themselves. We have to stop this very dangerous process of disintegration of large production associations, which form the foundation of the contract system that allows to stabilize prices.

Without cardinal changes in the economic mechanism, without solid and long-term agreements among producers, it is impossible to win a victory over inflation, and the “bottom” itself may turn out to be so deep that reaching it will exhaust even that great patience that our long-suffering people have been demonstrating to the entire world for almost two years.

#### **Citizens, Banks, Firms Allowed To Buy Gold in Sept 94**

944E0377C Moscow *RABOCHAYA TRIBUNA*  
in Russian 14 Jan 94 p 4

[Article by Dmitriy Voloshchuk, deputy general director of the Federal Clearing Chamber of Gold Trade: “Waiting for a Gold Rush”]

[Text] *Our society still has not quite appreciated the significance of the date of 27 September 1993. It is since that day that the state, for the first time in decades, began to transfer gold into private hands. It may be only the first small step: what is being put into circulation is not actual gold, but state obligations—the Gold Certificates of the Ministry of Finance—but this step already has been made.*

*With it, Russia and its weakened economy become full-fledged members of the world financial community. A year later, on 27 September 1994, citizens of Russia, banks, and firms will be able to possess the most real values in the world. Bars of 24K gold will become part of financial circulation, will help economic recovery, to get a handle on inflation.*

Russia is far from the only country in the world where circulation of gold had been banned. Even in the United States in 1934 the law on gold bullion forbade ownership of gold bars; this ban was lifted only on 31 December 1974. A virtual boom in the gold market ensued. Now an average well-to-do American holds his assets not only in stocks and real estate, but also necessarily in gold bars. After all, the only thing that is safer than gold is gold that belongs to you and sits in an armored safe. The gold reserves kept in individual safe-deposit boxes in American banks could compete with the famous depository of state gold bullion in Fort Knox.

I think that a similar “gold rush” is awaiting us, too, magnified by the factor that after 70 years, Russia is more starved for gold than America. The current factors of political and economic instability also will have an impact. Gold is a crisis commodity; it tends to do well when in other spheres times are hard or a trend is developing toward the worsening of a situation. During the period of political and economic upheaval and growing inflation, the demand for gold has practically no “ceiling.”

Therefore, we should expect that the Federal Clearing Chamber for Gold Trade is facing a heavy workload. And although the gold market in our country is just beginning to “warm up,” judging by how fast the “temperature” is climbing up, we are not far from the “boiling point.”

Currently the chamber has organized trading in Gold Certificates of the Ministry of Finance, as well as derivative rights to gold, which have been put into circulation by the owners of Gold Certificates. We hope that legislative changes will enable us to begin selling by the fall of 1994 24K gold bars and gold coins—this is a classic exchange commodity. The chamber is currently trading in two modes: the market of currently available commodities and the market of futures contracts.

In the current commodities market, there is buying and selling of deeds of ownership of parts of Gold Certificates, issued by the banks—the owners of full Gold Certificates. By its nature, it may be defined as an investor market, that is, depositors who want to protect their money from inflation—not only with respect to the ruble but also from inflation of seemingly hard currencies. It is no secret that over the past few months we have become witness and, what is even sadder, victim to a most paradoxical “dollar inflation.”

Quantitatively, this is a market of small (from a few hundred to a few thousand rubles) to medium-sized (several tens of millions of rubles) depositors, who do not have the resources to purchase a whole Gold Certificate, which costs 150 million rubles [R]. In their composition, it is mostly commercial and state organizations, as well as individual citizens.

In the futures market, the actors are mainly speculators; the state of the market, which actually is not surprising, is set by “bulls.” The trend of rising prices in the gold market is quite visible. For instance, in April 1993 at the London metals exchange a Troy ounce of gold cost \$326; in November it already cost \$375-\$378. According to KOMMERSANT-DAILY forecasts (No. 215, 1993), within the next few months gold prices may rise to \$410 or even \$450 per Troy ounce. Thus, those who purchased last December standard futures contracts from the Federal Clearing Chamber for Gold Trade and sell them, for instance, in April will make a return up to 60 percent at the annual rate in foreign currency; keeping in mind that opening a position in the chamber requires posting an initial margin of 20 percent of the value of the contract, return on the invested capital may reach 250-300 percent at the annual rate. And this is just for hedgers—active speculators, albeit with a certain degree of risk, may earn an even higher return. As to returns in rubles, this does not lend itself to calculation at all, just like the rate of inflation in our country.

The effectiveness and attractiveness of investing in a Gold Certificate may be graphically seen from this example: In jewelry stores, the price of 14K gold is R28,000 per gram, while the price of 24K gold in the Gold Certificate is today R18,000; thus, the gold of identical proof is three times less expensive in a Gold Certificate than in a jewelry store. Which means that for those who buy jewelry as a means of protecting their money from inflation, it is much more profitable to purchase shares in Gold Certificates.

As is known, the movement of the market is hard to forecast. For instance, J.P. Morgan, a great authority in the area of financial and stock exchange operations, when asked his opinion on the market moves, usually answered: “Expect fluctuations.” I, however, am in a position to make the following forecast for the gold market: “Expect growth.”

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#### Improving Formation Process of Territorial Budgets

944E0372A Moscow FINANSY SSSR in Russian  
No 11, Nov 93 p 7-13

[Article by S.V. Aleksashenko, deputy minister of finance of the Russian Federation: “To Perfect the Process of Drafting Territorial Budgets”]

[Text] The fall has come—the time to draft budgets. Our success in the coming year will largely depend on the results of this effort. This is why we should concentrate on the mutual relations between budgets and changes in the tax system in the coming year without embarking on theoretical discussions about how things happen in our country and why, which at present claims too much effort and time.

First of all, it must be understood that the budget is a mechanism that operates continuously, every day. By virtue of a number of circumstances of restructuring, radical changes of some kind in the budget during the calendar, financial year are virtually impossible. We are bound by laws and obligations; besides, the economic situation is quite difficult. Under the circumstances, it is natural that all our hopes for the better may only be attached to 1 January of next year, and new patterns of some kind and their implementation may only be planned for that period.

Perhaps no one sees our budget in its entirety or has an idea of its status. This is not surprising; after all, the budget is supplemented on a daily basis by the decisions of various authorities concerning new expenditures and grants of relief. Crowds (another word is hard to find) of visitors push decisions advantageous to them in the government. The adopted laws force the state to spend tremendous funds for programs whose effectiveness is dubious. The law on grain, the law on the social status of servicemen, and the law on guarantees to northerners are the best-known of such laws. These three laws, when fully implemented, result in expenditures of approximately 20 trillion rubles [R]. Of course, servicemen should be protected, the northerners should be helped, and our agrarians are facing a difficult situation. However, when we are told that we should pay world prices for grain to agrarians, plus compensate them for one-third of their expenditures, plus offset 50 percent of the cost of machinery, 40 percent of the cost of fertilizer, and 30 percent of the cost of motor fuel and lubricants, it will turn out that the grain price for the state in our country is greater than in the world,

whereas the wages of kolkhoz members do not reach even 10 percent of world levels. The question is: Where is this money going? We invest tremendous funds in agriculture, but the result is zilch.

In late July, a representative of the Tula Oblast administration, who had "pushed through" a government decree on conducting an experiment in the agro-industrial complex, came to see me and said: "We need R15 billion in easy credit, in which case we will produce additional agricultural output worth R15 billion." I was somewhat taken aback by these numbers and said: "Well, fine—we will give you R15 billion, the interest rate being 170 percent annually; this means approximately another R23-R24 billion. The total amount of expenditures will come to R42 billion, and the increment in output—R15 billion. Are the outlays and the returns commensurate?" One would think that budget expenditures should be viewed not only from the point of view of political lobbying; the time has come to look at whether such expenditures are needed from the point of view of the result produced.

Frankly, the situation that is emerging in the tax sphere and in the sphere of budgetary federalism, in mutual relations between the federation and its components does not satisfy the government. We would like to have greater precision and clarity in this matter and less room for case-by-case decisions. As far as taxes are concerned, the government has a clear-cut position. The government evaluates the situation quite soberly and believes that it makes absolutely no sense to introduce some new taxes, some kind of large, heavy, complex taxes. We will not be in a position to collect more than 50 percent of the gross domestic product. At the same time, we are not currently in a position to reduce the tax burden on the economy. Last year, all revenues and receipts that the state collected for the budget and all off-budget funds came to approximately 48 percent of the gross domestic product. For comparison, this number comes to 40 percent in the countries of Western Europe, the European Community, and to 30 percent of the gross domestic product in the United States and Japan. To be sure, there are the examples of Denmark and Sweden where, respectively, 54 and 51 percent of the gross domestic product is collected. However, in this case, too, this is rather an exception from the rule.

Therefore, elsewhere they collect less taxes, and we collect more. However, in addition to this we should say that the deficit of state finance last year came to approximately another 30 percent of the gross domestic product. That is to say, we collect 48 percent, and we print money for another 30 percent. The state is facing a unique economic situation whereby it may spend not only its revenues (the funds it collects in the form of taxes); it may generally meet all of its needs by using the printing press—simply printing money. In this case, all citizens of the country will pay an inflationary tax: by putting new money into circulation, we depreciate each ruble that is in circulation.

At present, the federal budget receives approximately one ruble in three (which it spends on expenditures) out of the credit of the Central Bank, i.e., one ruble in each three that the budget pays as wages, allowances, retirement benefits, and investment is not backed by anything. This is new money that depreciates the money already available in the country. Under the circumstances, it is impossible to resolutely up and reduce the tax load by a factor of two if we still strive to avoid hyperinflation.

At the same time, there is potential for reducing the tax burden. Out of the 48 percent of the gross domestic product that we collected in the form of taxes in 1993, 16.5 percent or slightly more went to off-budget funds: the Retirement Fund, the Social Security Fund, the Employment Fund, and another approximately two dozen small funds. As far as off-budget funds set up by the government are concerned, a decision in principle has already been made to the effect that from 1994 on, all of them will be incorporated into the budget, and the government will no longer have off-budget funds. There is a problem with off-budget funds that were managed and controlled by the Supreme Soviet. Out of the monies that the off-budget funds collected last year, approximately one-third of the funds remained unused (out of the 16.5 percent, which the off-budget funds collected, 5.5 percent remained in accounts). This says only that enterprises pay social insurance withholdings and those to the Retirement Fund (to all enterprises, these are just other taxes), but these monies are not used in any way. From the point of view of the state, they are not productive. Let us say frankly that the monies are used there for mercenary purposes: They are placed in deposit accounts at a low rate of interest, with someone collecting the difference.

Under the circumstances, it would be feasible to allocate the temporarily unobligated monies of the off-budget funds, a certain proportion of them (70-80 percent), to the acquisition of state securities so that the federal budget would be able to borrow money from off-budget funds, pay a certain rate of interest to them, and spend it for budget expenditures, thus restricting inflationary pressures.

In principle, the current tax system (as an aggregate of taxes, i.e., the list of 42 taxes) satisfies the government. Five or six key taxes generate 95 percent of the budget receipts. The rest of the taxes are needed to perform a regulatory function and to maintain the revenue base of local budgets.

While not seeing it fit to change the tax system, the government considers it necessary to focus its efforts on implementing the principles of the Federation Treaty with regard to the budget and tax system.

Understandably, the list of local and regional taxes that now exists is not in a position to meet the financial needs of our regions. At present, the situation is such that out of 89 regions, 41 regions receive from the federal budget 40 percent of the funds that this budget spends (this is the total volume of grants). Out of these 41 regions, 22 regions receive more than 60 percent. In general, there are fewer



than 20 regions not receiving grants in our country as a whole. This is why it is clear that some kind of a substantive approach to the division of the collected taxes should be implemented in our country, in our federation. The practice of the world indicates that in principle there are three approaches to solving this problem.

The first approach is to have different taxes. The federation would introduce its own taxes, components of the federation—their own taxes, and the local organs of power—their own. The rights and responsibilities of various levels of authority in laying taxes should be divided: there should be federal taxes, taxes of the components of the federation, and local taxes. Correspondingly, each level of authority should introduce taxes that are entirely taken in by its budget.

That is to say, if someone wants to increase his revenues, he should introduce new taxes, and thus also be held politically accountable by his population. "You want to spend money—so tell us what are you collecting it for and how"—this principle should be the same for all authorities, so that everything will be precise and clear, and that no region will visit Moscow and bargain for better conditions for themselves than for the neighboring regions. Everyone should be responsible for his decisions. In conjunction with this, it is necessary to authorize the components of the federation and the local organs of power to introduce their own taxes, and to establish and revise the rates of the taxes that now exist. Are some kind of upper-limit restrictions needed in the process or not? The Ministry of Finance believes that these restrictions do not work; a way will always be found to circumvent them. However, in principle, this issue exists.

The second approach is for a tax, for example, the profit tax, to combine rates: the federal level of power will introduce its own rate, the regional level—its own rate, and the local level—its own rate.

The third approach calls for tax revenue sharing. In our country, the value-added tax that is distributed between the federation and components of the federation is a vivid example.

The practice of what we call developed countries testifies to the fact that nobody has succeeded in adhering to just one principle. No budgetary system is built on a single principle, that is, nowhere do just different taxes or the combination of rates exist. As a rule, a combination of all three, or in rare instances two out of the three aforementioned approaches, is used. In view of this, it is not possible by any means to agree with the popular proposal to divide taxes: to give the profit tax to the regions, and to give the entire value-added tax to the federal budget. From a purely financial standpoint, approximately equal amounts emerge, that is to say, the federal budget will not lose, but the regions will because the distribution of the profit tax throughout the territory of the country is much more uneven than that of the value-added tax. According to estimates by the Ministry of Finance, 17 regions stand to win from the introduction of this

arrangement, and the rest of the regions will lose. This means just one thing—that the need of the regions for additional financing will increase.

Moreover, the Ministry of Finance believes that neither the federal budget nor the budgets of components of the federation can be held hostage by a single tax. All kinds of things may happen to the profit tax in a region: For example, a large-scale conversion program may begin, or else a natural disaster may occur there, the entire industrial sector could shut down, and there would be no receipts of the profit tax. What then? It will always be very difficult for both the federation and components of the federation in such emergency situations.

This is why in our country, under our conditions, we should implement a combination of all three of these methods. In particular, the Ministry of Finance proposes to combine rates of the profit tax: to make the profit tax both a federal tax and a tax of the components of the federation so that the federal parliament will introduce its own tax rate, which will apply to all enterprises throughout the country, and representative organs of power of components of the federation will introduce their rates.

At the same time, the Ministry of Finance believes that the profit tax and the personal income tax should be paid by all citizens and all enterprises. These should be federal taxes; at the same time, only a particular proportion of them will be federal. This is one of the principles that forms the foundation of the state. Uniform taxes and uniform currency—this is what should unite all of us. Each individual residing in the territory of our country or each enterprise operating in the territory of our country that generates profits through its activities must pay taxes to the federal budget primarily to perform common functions that exist in our country.

The Ministry of Finance proposes to share and give to the regions a proportion of proceeds by virtue of the value-added tax.

The rate of the value-added tax should be established in its entirety by the federal parliament and should be shared on a uniform principle between the federal and regional budgets.

At present, these allowances are differentiated: between 20 and 50 percent is taken in by the budgets of the components of the federation. Unfortunately, personal preferences play a considerable role in whether the number 20, 28, 43, or 50 is laid down.

The current situation is such that one-half of the regions receive substantial grants from the federal budget. Generally speaking, it makes no difference whether a region receives 20 or 50 percent; something will still have to be given to it additionally. However, the position of the Ministry of Finance is that uniformity in mutual relations should be introduced in a radical manner. As we see it, 25 percent of the proceeds by virtue of the value-added tax should be given to regions, and the uniform norm should apply to all. Everyone should stand on an equal footing and be guided by uniform rules.

The concept of differentiating the rate of the value-added tax cannot be supported by any means. Technically, the value-added tax is very complicated. A system

for refunding monies exists within it; if we introduce various rates in different regions of our country, our financial system will go crazy. To conduct all such resettlements, we will have to know the rates of the value-added tax that exist in each of 89 components of the federation.

A similar experiment has already been conducted in Brazil, where each state introduced different rates of the value-added tax. However, this was very quickly abandoned because the financial system became chaotic.

Understandably, disproportions will arise anyway, regardless of the manner in which territorial budgets are drawn up. There will still be regions (more than one-half) that will need financial support even after we make use of all theoretical tax-sharing arrangements. This is why it is proposed to introduce two types of transfer payments, payments from the federal budget to regional budgets. One payment would be given as general replenishment for the revenue base in the event that the per capita total of federal taxes in a specific region is lower than in the country as a whole. A proportion of this could be compensated from the federal budget. The second payment (in conventional terms—"social") in the event that the total per capita social expenditures are substantially lower in a particular place than in the economic region on the average. Once again, the federal budget may defray a certain proportion of these expenditures.

According to calculations, the implementation of this arrangement on the basis of 1993 statistics results in the following: one-third of the regions win, one-third of the regions lose, the situation of one-third remains the way it exists now. In the process, the issue of regions that lose heavily is very complicated. There are regions that will lose up to 60-65 percent of their present-day income. Understandably, some kind of individual solutions should be sought.

At present, there are regions that receive 85-95 percent of the funds for their expenditures from the federal budget. Understandably, others cannot shoulder the tax burden for them. If someone wants to finance large expenditures in his territory, let him set his taxes himself, or ask for assistance, subjecting his budgets to control by the Ministry of Finance in order to make it possible to determine how rationally money is being spent. This procedure should possibly have some political conditions attached to it, but everyone should know clearly: If you want to have assistance beyond certain rules that exist in our country be so kind as to do this openly.

#### **RF Metallurgy Committee Proposes New Credit System**

*944E0378A Moscow RABOCHAYA TRIBUNA  
in Russian 15 Jan 94 p 1*

[Article by Andrey Novikov: "Interest-Free Credit—This, It Turns Out, Is Possible"]

[Text] The course of the Russian Government toward a strict credit-financial policy has forced producers to take

stock. For the majority commercial credit today is a luxury but they must operate, and to pay off debts is also a luxury. At the regular meeting of the board of the Russian Federation Committee on Metallurgy a curious plan was proposed for distributing credit funds. It was conventionally called resource-target. In the opinion of experts, it will not save the branch from all of its problems but it will help many to complete mutual settlements.

The essence of the "scheme" is this. Credit is granted not to one enterprise, which pays off its debts at its own discretion, but to several. The debtors are arranged in a technological chain: for example, the pipe plant is in debt to the metallurgists, the metallurgists—to the miners, the miners—to the energy workers. This way the same credit passes through all links of the chain. As a result, both the sum of repayment and the credit rate are formed through all participants in the plan, and the last link receives money, say, a billion rubles, with minimal interest.

At the same time, as the funds move, it is as though each debtor in the chain gives credit to his creditor, thus there is a mutual settlement of debts. Moreover, the entire sum of credit reaches the final recipient in the complete and unaltered amount.

In the opinion of the chief of the administration for finance and accounting of the Russian Federation Committee on Metallurgy, Leonid Rakovskiy, such a system will make it possible to reduce the interest rate on credit, ease the burden of the borrowers, increase the repayment of credit and, as a result, it will draw commercial banks into cooperation with metallurgical enterprises.

Even today the Menatep Bank and the branch bank of Metallinvestbank are prepared to work according to this plan. True, the banks will carefully verify the solvency of the clients, and the credit, obviously, will be received only by profitable enterprises. In the words of the chairman of the Russian Federation Committee on Metallurgy, Serafim Afonin, even such a clever system will not help an obvious outsider.

#### **Misuse of Money Allocated for Fuel Purchases Alleged**

*944E0378B Moscow RABOCHAYA TRIBUNA  
in Russian 15 Jan 94 p 1*

[Unattributed article: "Who Is Being Warmed by Petrorubles If They Are Not Going to the Petroleum Workers Who Are in Debt up to Their Ears?"]

[Text] Although the "real" freezing weather has not hit yet, the fuel supply for the national economy is causing a great deal of uneasiness. The supplies have "melted away" considerably more rapidly and in larger volumes than was anticipated, according to calculations of specialists. And it was not possible to restore them fully by January.

Nonetheless, as they think in the Ministry of Fuel and Energy of Russia, through the combined efforts of

miners and operations workers the situation is stabilizing to a certain degree. Active work is being done to conclude agreements for the delivery of fuel during the first quarter and throughout the year as a whole.

At the same time the administrations of many regions are trying to solve these problems by old administrative-economic methods, particularly by prohibiting the shipment of petroleum products outside their territories and also by exporting fuel that was intended, according to paid agreements, for other regions of the country. And this is being done under the guise of concern for "their own" residents and enterprises.

The roots of this practice lie, apparently, in the recent past when the state granted all regions special-purpose credit for purchasing fuel and preparing for winter. But at that time, obviously, they counted on spending it more advantageously for other purposes, above all for things that produce a rapid return on capital and considerable profit. Or they simply left the matter to its own accord, hoping that the government would not allow the cities and large industrial enterprises to freeze. According to figures of the Ministry of Fuel and Energy, a total of more than 200 billion rubles [R] was not used to pay for fuel—about 40 percent of the credit allotted.

Thus according to information from the Komineft Joint-Stock Company, of the R8 billion in loans allotted in November of last year to the government of the Republic of Komi to settle accounts with suppliers of petroleum products and coal and for additional purchases of energy resources, the republic petroleum industry has not yet received a single ruble. Nobody knows where and to whom this money went. And petroleum workers of the region are now on the verge of financial ruin: they have no money either for wages or for settling accounts with the suppliers or for payments into the budget. In the final analysis, all this threatens to shut down wells, suspend deliveries of oil for processing, and orient the enterprises toward selling it to commercial structures.

And what is especially alarming is that such a situation is not an exception, the ITAR-TASS correspondent emphasizes, but rather the rule. The consumers prefer not to pay for energy resources and, taking advantage of the fact that the enterprises cannot stop the continuous process of extraction, they are forced to turn over their products practically free of charge. In the opinion of the leaders of the fuel and energy complex, in such a situation it is necessary to use not so much economic methods but methods of state pressure on the structures that are impeding the arrangement of normal market relations.

#### **Trade Union Backing of Check Investment Fund Detailed**

944E0378C Moscow *RABOCHAYA TRIBUNA*  
in Russian 15 Jan 94 p 2

[Unattributed Article: "They Go to the Trade Union for Help. They Bring Their Vouchers Here Too..."]

[Text] At the end of last year *RABOCHAYA TRIBUNA* (see the issue for 28 December) reported to its readers on the check investment fund of workers of Profsolidarnost. Most frequently such funds advertise themselves in loud and intriguing ways: "We will turn your voucher into gold!" etc. And the "details" that interest the voucher holders are simply left out. The calling card of Profsolidarnost, which was founded by the largest branch trade unions of Russia, was drawn up, it seemed, quite carefully. Nonetheless the Moscow staff headquarters of the fund, which is located in the building of the Council of the FITUR [Federation of Independent Trade Unions of Russia] on Lenin Avenue, and its representative offices, which are in republic, kray, oblast, city, and rayon trade union committees, and also *RABOCHAYA TRIBUNA* are receiving phone calls and letters from people requesting that various details be clarified, that they discuss in greater detail why Profsolidarnost can so confidently guarantee them high dividends. The floor is turned over to the vice president for public relations of the joint-stock company of managers of AKOM, Andrey Stolyarov:

"I will not deny that the growing interest of *RABOCHAYA TRIBUNA* readers in our fund is gratifying. We are gaining more and more stockholders. But it is also quite natural for the people to want to learn more about the people to whom they have decided to entrust their vouchers. Noisy scandals over funds that promised mountains of gold yesterday and today have suddenly taken a dive or have disappeared completely are a lesson to many: be careful...we must never disappoint the expectations of the people or even promise more than we can give them. You will agree that this would be a terrible blow to the largest and most respected associations of workers—the trade unions."

And so we have the trade unions behind us. They are the ones whose direct duty it is to defend the interests of the workers—our first guarantors. Where does almost any investment fund begin? With the creation of a network of its representative offices and points for receiving vouchers and selling shares. And on this they spend millions and millions of rubles that have been taken out of the pockets of the shareholders. But we essentially already have such a network. It is the trade union structures of the most diverse levels, which are capable of simultaneously both monitoring the activity of the fund and appreciably influencing it. If the "rank-and-file" shareholder has certain doubts or questions he is welcome to come to his home trade union committee where he knows everyone and they know him.

The authorized capital of Profsolidarnost is more than 50 billion rubles. Obviously a large fund. And in this connection the misgivings expressed by certain people are justified: Will the founders not start investing the multitude of vouchers they have gathered "just any old where"? As long as they dispose of them?...no, nothing like that happens here nor will it happen. Some are better and some are worse, and the trade unions know precisely which is which, in which branches and in which enterprises things are proceeding well today and where they



are having nothing but trouble. Because the controller of the fund of the joint-stock company of managers AKOM has already managed—with real support from the trade unions—to set up an effective system of investments. In particular, we have arranged business contacts with a number of profitable and promising enterprises of the extraction and processing branches—petroleum, timber, chemical, gold-ore, diamond...and, believe me, these enterprises will survive in any "weather."

### Documents on State, Municipal Privatization Published

#### Text of Edict

944E0391A Moscow ROSSIYSKAYA GAZETA  
in Russian 4 Jan 94 p 1

[Edict of the Russian President: "On the State Program for Privatization of State and Municipal Enterprises in the Russian Federation"]

[Text] With the aims of deepening the economic reforms and ensuring stability of the legal bases of a unified market of facilities for privatization, and in accordance with Points 2 and 3 of the October 1993 Edict of the President of the Russian Federation No 1598 "On Legal Regulation During the Stage-By-Stage Constitutional Reform in the Russian Federation" I decree:

1. To ratify the State Program on privatization of state and municipal enterprises in the Russian Federation presented by the Council of Ministers-Government of the Russian Federation and introduce it on 1 January 1994.

2. The Council of Ministers-Government of the Russian Federation must:

- by 25 January 1994 prepare proposals for making the corresponding changes and additions to the Russian Federation existing legislation on taxation;
- by 25 January 1994 prepare the Register of enterprises to become joint stock companies and publish it, ensuring the rights of Russian citizens to use their privatization checks;
- by 1 February to bring the previously published normative acts into correspondence with the Russian Federation State Program on Privatization of State and Municipal Enterprises;
- by 1 March 1994 to prepare normative acts ensuring fulfillment of the Russian Federation State Program on Privatization of State and Municipal Enterprises;
- by 1 March 1994 to prepare Russian Federation draft laws "On Privatization of State and Municipal Educational Institutions," "On Privatization of Health Care Institutions and Pharmaceutical Institutions and Enterprises;"
- by 1 March 1994 to prepare a Russian Federation draft law on transformation of state enterprises into

budget-funded plants (factories, institutes, other organizations) financed directly from budgetary sources;

—by 1 March 1994 to develop and ratify a Statute on the procedure for the use of civil defense facilities and property by privatized enterprises, institutions and organizations.

3. The State Committee of the Russian Federation for Management of State Property, along with the Russian Federation State Committee on Questions of Architecture and Construction and the Russian Federation Ministry of Culture, are to develop by 1 March 1994 a Standard Protection Agreement including under privatization center premises located in buildings which are monuments of history and culture.

4. To establish that the procedures, established by the 19 October 1993 Edict of the President of the Russian Federation No 1662 "On Improving Accounting and Management and Increasing the Responsibility for Carrying Them Out in a Timely Manner," apply to the enterprises in which, at the time of issuance of the 19 October 1993 Edict of the President of the Russian Federation No 1662, the share of state property comprises less than 25 percent.

5. The Commission for Securities and Stock Markets is to ratify, in 2 months' time, a unified qualification form certifying the right to carry out operations with securities and the procedures for issuing them.

6. The Russian Federation State Committee for the Management of State Property and the territorial committees for the management of state property are to carry out the necessary work for compiling, by 1 July 1994, a list of property of nonstate organizations (trade unions, former DOSAAF property, consumer cooperatives) created on state budget funds.

7. To recognize as void the following decisions of the Russian Federation Supreme Soviet, directed toward curtailing the process of privatization in the Russian Federation:

—the Russian Federation Supreme Soviet Presidium decree of 30 March 1992 No 2626-1 "On the Succession of the Russian Fund of Federal Property in Relation to Private Property of State Structures of the Former USSR;"

—subpoint "a" of point 1 of the Russian Federation Supreme Soviet decree of 21 July 1993 No 5475-1 "On Introducing Changes and Additions to the Russian Federation Supreme Soviet Decree of 27 December 1991 No 3020-1 'On delimiting state property of the Russian Federation into federal property, state property of the republics within the Russian Federation, and property of krais, oblast, the autonomous oblast, okrugs, and the cities of Moscow and St. Petersburg, and municipal property.'"

8. Organs of state power and administration of the republics within the Russian Federation and of krais,

oblasts, the autonomous oblast, autonomous okrugs and the cities of Moscow and St. Petersburg, as well as the corresponding committees for property management, are to introduce republic and local programs for privatization in accordance with the Russian Federation Program of Privatization of State and Municipal Enterprises within 2 months of publishing this program.

9. The Russian Federation State Committee for Statistics, jointly with the Russian Federation State Committee for Management of State Property, is to develop within a 3-month period procedures and forms for presentations of statistical calculations on privatization by the enterprises.

10. To publish the Russian Federation Program on the Privatization of State and Municipal Enterprises.

11. To introduce the current edict for review by the Federation Council.

12. The current edict comes into force from the moment of its signing.

[Signed] President of the Russian Federation B. Yeltsin  
Moscow, the Kremlin  
24 December 1993  
No 2284

#### Text of Program

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[Text of "State Program for the Privatization of State and Municipal Enterprises in the Russian Federation"]

[Text]

#### I. Introduction

The State Program for the Privatization of State and Municipal Enterprises in the Russian Federation (hereinafter referred to as the Program) is a federal program in the field of the economic and social development of the Russian Federation elaborated in accordance with the requirements of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" taking account of the experience and results of privatization conducted in 1992-1993.

The program sets the objectives, targets, priorities, limitations, and procedures for privatization.

Broad interpretation of the restrictions on privatization indicated in the Program, and also in local privatization programs, is not permitted.

The main objectives of the Program are:

- the formation of a broad stratum of private property owners as the economic basis of market relations;
- the involvement in the privatization process of the broadest possible strata of the population through the sale of privatizable state and municipal property for

privatization checks at specialized check auctions prior to 1 July 1994 and for money at auctions after 1 July 1994;

- the completion of privatization involving the use of privatization checks;
- the completion of the privatization of most "small-scale privatization" facilities and the acceleration on this basis of the development of the trade and services sphere;
- the completion in the main of the privatization of large and medium-sized enterprises in industry and construction and the improvement of the performance of enterprises and the national economy as a whole on the basis of the implementation of structural restructuring of the economy, the development of post-privatization support for enterprises, the creation of a competitive environment, and the development of the capital market;
- the attraction of investment, including foreign investment, into production;
- assistance in the implementation of measures to provide social support for the population, including the protection of the rights of private property owners (stockholders).

Facilities and enterprises in federal, state, and municipal ownership are divided into the following groups on the basis of their suitability for privatization:

- facilities and enterprises in federal ownership whose privatization is prohibited;
- facilities and enterprises in federal ownership whose privatization is effected by Russian Federation Government decision;
- facilities and enterprises whose privatization is effected by decision of the Russian Federation State Committee for the Management of State Property (hereinafter referred to as the Russian Goskomimushchestvo) taking account of the opinion of sector ministries;
- facilities and enterprises in state (municipal) ownership whose privatization is effected in accordance with the Program by decision of organs of state power and administration of the republics within the Russian Federation, krays, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg and with local privatization programs; facilities and enterprises in federal or state (municipal) ownership subject to compulsory privatization.

The privatization of facilities and enterprises in federal or state (municipal) ownership which are not included in the targets and are not subject to restrictions on privatization is effected on the basis of decisions by territorial property management committees or of privatization applications submitted by any persons.

In the event that an application for the privatization of an enterprise is submitted by the labor collective or by any individual or corporate third party acknowledged as

the purchaser in the privatization process, the appropriate property management committee is obligated to adopt a decision on the privatization of the enterprise and must mandatorily inform the applicant of the decision adopted.

The privatization of state and municipal educational establishments is governed by the relevant legislation.

Pending the adoption of a law or other Russian Federation legislative act, health-care institutions and enterprises, and also pharmacies, are privatized in accordance with a special procedure to be approved by the Russian Federation Government.

Questions relating to the privatization of facilities in the ownership of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg and also of facilities in municipal ownership are decided by the component's of the Russian Federation on the basis of Russian Federation privatization legislation, including the features, restrictions, and principles defined by the present Program.

Fulfillment of the requirements laid down by the Program is mandatory for federal organs of administration; organs of state power and administration of the republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg; and organs of local self-government.

## **2. Classification of Facilities and Enterprises According to Their Suitability for Privatization**

### **2.1. Facilities and Enterprises in Federal Ownership Whose Privatization Is Prohibited**

2.1.1. The mineral resources, forests, water resources, airspace, and resources of the continental shelf, territorial waters, and maritime economic zone of the Russian Federation; frequencies and orbits available to space systems

2.1.2. Natural territories that are protected or under special use, with the immovable facilities located there.

2.1.3. The resources of the Russian Federation republic budget, the Russian Federation Republic Currency Reserve, the Russian Federation Pensions Fund, the Russian Federation Fund for Social Insurance, Employment, and Social Support for the Population, and other state extrabudgetary funds, and of the Central Bank of the Russian Federation; the Russian Federation State Precious Metals and Precious Stones Fund, including the Russian Federation Diamonds Fund and the gold reserve of the Russian Federation.

2.1.4. The Central Bank of the Russian Federation and enterprises responsible for the production and storage of bank notes, state treasury notes, bonds, and other state securities.

2.1.5. Authorized and standard-issue military and other property (including arsenals) under the operational control of the Russian Federation Armed Forces, the Russian Federation Federal Counterintelligence Service, the Russian Federation Defense Ministry, the Russian Federation Internal Affairs Ministry, the Federal Government Communications and Information Agency under the Russian Federation president, their troops, and other ministries and departments having military formations; the property of military-construction directorates and troop units of the Federal Administration for Special Construction under the Russian Federation Government and the Federal Specialized Administration for Construction in Eastern Regions of the Russian Federation under the Russian Federation State Committee for Questions of Architecture and Construction. Special testing ranges for testing arms and military equipment.

2.1.6. Institutions and organizations which are more than 50 percent financed out of the Russian Federation republic budget.

2.1.7. Movable and immovable assets belonging to the historical and cultural heritage of federal significance, on the basis of the list approved by the Russian Federation Government.

2.1.8. Enterprises and facilities of the hydrogeological service of the Russian Federation Ministry of Health; services for monitoring the state of the natural environment and nature conservation, including zonal institutes and enterprises of the Russian Scientific Research, Planning, and Prospecting Association for the Utilization of Land Resources; the All-Russia Institute of Agricultural Aerophotogeophysical Surveys and its zonal branches; the Russian Center for Scientific Support for Land Reform; the Russian Institute of Monitoring of Land and Ecosystems and its zonal institutes.

2.1.9. Enterprises, organizations, and facilities in the scientific and technical sphere under the Russian Federation state health and epidemiological service, the veterinary service, the service for the protection of plants and the protection and reproduction of game stocks; laboratory animal breeding centers.

2.1.10. Water resources and land reclamation systems and installations; organizations for oversight of the condition of reclaimed land.

2.1.11. Railroads and railroad transportation facilities and property directly involved in the transportation process and in emergency repair work.

2.1.12. Enterprises for the manufacture of state insignia.

2.1.13. Enterprises and facilities in the scientific and technical sphere carrying out the development, production, and sale of narcotic substances or the sowing, cultivation, and processing of crops containing such substances, including hemp processing enterprises.

2.1.14. Port hydrotechnical installations and facilities, including those serving the Northern Sea Route; the



nuclear, educational, hydrographical, and icebreaker fleet; equipment used for rescue operations and the elimination of oil spills at sea; facilities and installations belonging to shipping traffic control systems and port oversight inspectorates; the "Atomflot" technical maintenance enterprise; and the property of production associations of waterways and canals, detachments of the Podvodrechstroy [Ministry of the River Fleet Underwater Technical and Construction Operations Administration], and navigation inspectorates.

2.1.15. Organizations and facilities of the maritime accident rescue service and maritime and river transport electrorationavigation and technical communications.

2.1.16. Facilities, enterprises, and equipment for the burial of solid and liquid radioactive and toxic chemical waste; animal refuse burial grounds.

2.1.17. Facilities and enterprises of the Russian Federation Internal Affairs Ministry, the Russian Federation Federal Counterintelligence Service, the Russian Federation Defense Ministry, and the Russian Federation State Customs Committee, and enterprises created to provide support for the activities of federal organs of power and administration of the Russian Federation and for the Russian Federation Border Forces.

2.1.18. Nuclear [power] stations and enterprises for the production of special nuclear and radioactive materials and nuclear weapons; enterprises carrying out scientific research, experimental, and design work in the said spheres.

2.1.19. Residential social services facilities, including children's homes and orphanages, the Scientific Research Institute of Prosthetics and Prosthesis Building, the Scientific Research Institute for the Study of Fitness for Work and the Organization of Disabled People's Labor, the medical experts further training institute, and territorial social services centers; boarding schools for orphans and children without parental care; boarding schools for children with mental and physical developmental deficiencies; homes for the elderly; nursing homes, boarding houses, hospitals, sanatoriums, and homes for disabled people, children, and the elderly; prosthetics and orthopedics enterprises, including scientific research institutes in the sphere of prosthetics and orthopedics engaged in the manufacture of output and the provision of services for disabled people with damage to the motor-skeletal system.

2.1.20. Facilities, enterprises, and systems and means of air traffic control of airports and aviation enterprises connected with ensuring a unified system of air traffic control of the lower and upper airspace; airfields of federal significance (categories A, B, C, D, and E, under the accepted classification), metrological centers and flight test stations, and training centers in civil aviation.

2.1.21. Facilities and enterprises for which closed administrative-territorial formations have been set up to

ensure their security, on the basis of the list approved by the Russian Federation Government.

2.1.22. State seed inspectorates, selection and hybrid centers, laboratories for varietal testing of agricultural crops, varietal testing stations and plots, flax and hemp seed raising stations, planning and survey centers of the agrichemical service, centers for the use of chemicals and agricultural radiology, farms for the production of valuable and anadromous types of fish, reservoir agencies for the protection and reproduction of fish stocks, state fish selection and breeding plants and farms, state stables and race tracks of federal significance, and laboratory animal breeding centers.

2.1.23. State reserve stocks, bases of the Russian Federation Committee for State Reserves, and its other facilities designated for the storage and servicing of material assets of the state reserve; mobilization reserves (when enterprises are privatized, such reserves are excluded from their property in accordance with the standard contract approved by the Russian Goskomimushchestvo by agreement with the Russian Defense Ministry and the Russian Ministry of the Economy).

2.1.24. Facilities and enterprises of the Federal Postal Communications Administration under the Russian Federation Ministry of Communications.

2.1.25. Facilities and enterprises subordinate to the Russian Federation State Committee for Statistics.

2.1.26. The technical documentation insurance fund.

2.1.27. Scientific and technical information organs and scientific and technical libraries engaging in the collection, processing, storage, and utilization of state information resources relating to Russia's scientific and technical development; state archives and foundations.

2.1.28. Enterprises and facilities of the Russian Federal Service for Hydrometeorology and Environmental Monitoring and the Russian Federal Geodesy and Cartography Service ensuring the standardization of the technical procedure for making observations and preparing information.

2.1.29. Facilities and enterprises belonging to the system of the Federal Administration for Biomedical and Survival Problems under the Russian Federation Ministry of Health.

2.1.30. Paramilitary mountain rescue units and gas rescue and gusher control services and specialized subunits, including those for the control of emergencies, natural disasters, and radiation disasters.

2.1.31. Physical fitness and sports facilities used for training national teams.

2.1.32. Facilities and enterprises for the grading of precious stones and refining plants (shops and production units).

2.1.33. Enterprises and facilities in the scientific and experimental production spheres forming part of the Russian Academy of Sciences, the Russian Academy of Agricultural Sciences, the Russian Academy of Medical Sciences, the Russian Academy of Education, and the Russian Academy of Arts which were transferred to the said academies under the established procedure in line with edicts of the Russian Federation president on the basis of lists approved by the Council of Ministers-Government of the Russian Federation.

2.1.34. Radio and television transmission centers and radio centers (including technical facilities and installations other than those forming part of the property of enterprises eligible for privatization).

2.1.35. Enterprises engaged in the development and production of cipher equipment.

2.1.36. Facilities in the scientific and technical sphere carrying out research in nature conservation and ecological monitoring under the Russian Federation Ministry of Environment and Natural Resources.

2.1.37. Protected facilities of organs of state administration, civil defense protective installations, and the material assets belonging to the latter category and separately located specialized warehouse facilities for their storage.

2.1.38. Federal motor roads for general use and organizations carrying out their maintenance.

2.1.39. Facilities in the nonproduction sphere that are under the jurisdiction of federal organs of representative power.

2.1.40. Facilities and enterprises for the development and production of immunobiological preparations that are under the jurisdiction of the Russian Federation Ministry of Health.

2.1.41. Institutes for the training and further training of personnel for sector ministries and departments.

2.1.42. Crematoriums and cemeteries.

2.1.43. Enterprises, facilities, and organizations of the geological service which carry out regional geological studies in connection with state defense needs or operations on the continental shelf and within the maritime economic zone or in the world's oceans, including sea-going vessels intended for this purpose, as well as those that carry out fundamental scientific research, experimental, and design work aimed at fulfilling federal programs for the development of the country's minerals and raw materials base, in accordance with the special list approved by edict of the Russian Federation president; deep boreholes located within the limits of mining concessions or areas for which licenses have been issued to extraction or other enterprises; the state network of observation boreholes and centers for the observation of oil and gas gushers.

2.1.44. The subway. Note: At enterprises included in Section 2.1 of the Program, the privatization of individual production units not associated with the production of special output may be permitted by decision of the Russian Federation Government.

## **2.2. Facilities and Enterprises in Federal Ownership Whose Privatization Is Effected by Russian Federation Government Decision**

2.2.1. Facilities and enterprises for the manufacture and maintenance of all types of arms systems and components, including the manufacture of single-use subassemblies and components, and for the production of space devices, explosives, pyrotechnics, and special-purpose chemicals; scientific research facilities working on the development of the said items (other than those indicated in Section 2.1 of the Program).

2.2.2. Civil defense facilities (other than those indicated in Section 2.1 of the Program).

2.2.3. Specialized cold stores responsible for the permanent housing of state reserves, the formation of federal food stocks, and the storage of mobilization reserves (other than those indicated in Section 2.1 of the Program).

2.2.4. Facilities and enterprises for the processing of precious metal ores, precious and semiprecious stones, and radioactive and rare-earth elements (other than those indicated in Section 2.1 of the Program).

2.2.5. Enterprises and associations of the fuel and energy complex (with the exception of construction organizations and construction industry enterprises), including electricity generation enterprises, coal, petroleum, and gas extraction and refining enterprises, petro-geophysics and petroleum product support services enterprises, nuclear [power] stations, and pipeline transportation facilities and enterprises.

2.2.6. Railroad transportation enterprises and facilities and maritime and aviation transportation enterprises of federal significance (other than those indicated in Sections 2.1 and 2.4 of the Program).

2.2.7. The scientific research fleet of fisheries survey administrations; maritime fishing ports.

2.2.8. Commercial banks (their privatization is effected under a special procedure to be approved by the Russian Federation Government on the basis of agreed proposals of the Russian Goskomimushchestvo, the Russian Ministry of Finance, and the Russian Ministry of the Economy).

2.2.9. Communications enterprises (other than enterprises of the "Rospechat" [Russian Main Administration for the Distribution of Printed Materials] retail network and enterprises indicated in Section 2.1 of the Program), including scientific research, planning, and design enterprises and organizations and their experimental enterprises and testing grounds; institutions of the Russian Federation Committee for Information Science.

**2.2.10.** News agencies and television and radio broadcasting companies.

**2.2.11.** Facilities and enterprises of sociocultural significance (including theaters, movie, concert, and exhibition halls, movie studios and movie re-recording factories, and physical fitness and sports facilities).

**2.2.12.** Foreign trade associations of the Russian Federation Ministry of Foreign Economic Relations and other Russian Federation ministries and departments, unless otherwise stipulated in Russian Federation legislation.

**2.2.13.** Facilities and enterprises carrying out the operation and maintenance of gas facilities which are of all-Russian and interregional significance.

**2.2.14.** Movable and immovable assets belonging to the historical and cultural heritage (other than those indicated in Section 2.1 of the Program) which have been placed on the state's books, as well as those kept in the stocks of state and municipal museums, archives and libraries, and picture galleries and in the display cabinets of art industry enterprises and traditional folk industries, including the premises and buildings in which they are located.

**2.2.15.** Printing enterprises, publishing houses, and wholesale book trade enterprises under the jurisdiction of the Russian Federation Committee on the Press, the Russian Federation Ministry of Social Protection of the Population, and the Russian Federation Ministry of Health.

**2.2.16.** Enterprises and facilities in the scientific and technical sphere belonging to the system of the Russian Federation Committee on Standardization, Metrology, and Certification; machine testing stations.

**2.2.17.** State sanatorium and resort facilities under the jurisdiction of the Russian Federation Ministry of Social Protection of the Population and the Russian Federation Ministry of Health.

**2.2.18.** Enterprises and facilities of the Republic (Federal) Social Support Fund.

**2.2.19.** Forestry enterprises and forestry protection air bases; facilities in the scientific and technical sphere belonging to the system of the Russian Federal Forestry Service.

**2.2.20.** Enterprises and facilities belonging to the system of the Water Resources Committee under the Russian Federation Government.

**2.2.21.** Surplus movable and immovable property (with the exception of arms and ammunition) under the operational control of the Russian Federation Armed Forces, the Russian Federation Federal Counterintelligence Service, the Russian Federation Defense Ministry, the Russian Federation Internal Affairs Ministry, and the Federal Government Communications and Information Agency under the Russian Federation president, and their troops, and other ministries and departments which have military formations;

enterprises and associations of these ministries and departments that are not engaged in the production or maintenance of any type of arms systems or components or the production of ammunition, explosives, or pyrotechnics (other than those indicated in Section 2.1 of the Program, and enterprises of the Russian Federation Federal Counterintelligence Service).

**2.2.22.** Enterprises for the production of specialized nonnuclear materials.

**2.2.23.** Enterprises of the geological service (other than those indicated in Section 2.1 of the Program).

**2.2.24.** Medical industry facilities and enterprises, pharmaceutical bases (storehouses) and medical equipment bases supplying goods for federal and state needs, and also those serving regions of the Far North and equivalent localities (other than those indicated in Section 2.1 of the Program).

**2.2.25.** Enterprises and facilities in the scientific and technical sphere in the chemicals complex which incorporate manufacturing facilities involving toxic substances graded in risk categories 1 and 2; production facilities graded in explosive risk category 1.

**2.2.26.** Facilities whose construction is financed from the federal budget (other than those indicated in Section 2.5 of the Program).

**2.2.27.** Extraction industry facilities and enterprises of federal significance, including the salt industry (with the exception of facilities and enterprises which recover local raw materials and those that carry out timber procurement operations, including the recovery of tar-impregnated wood, resin, and barras.

**2.2.28.** Enterprises for the burial of solid industrial and household waste.

**2.2.29.** Enterprises and organizations subordinate to the Russian Federation Committee on Patents and Trade Marks.

**2.2.30.** Pedigree and stud farms, pedigree stock farms, and pedigree stock breeding service enterprises.

**2.2.31.** Subsidiary production farms of the biological industry; "Sortsemovoshch" [selected vegetable seed varieties] enterprises of the "Rossortsemovoshch" Russian Republican Association.

**2.2.32.** State scientific centers on the basis of the list approved by the Russian Federation Government.

**2.2.33.** Specialized plants manufacturing components and nonstandardized equipment and tools for prosthetic and orthopedic enterprises.

**2.2.34.** Nuclear weapon delivery vehicles.

**2.2.35.** Enterprises and facilities of the Russian Federal Geodesy and Cartography Service (other than those indicated in Section 2.1 of the Program).



2.2.36. Enterprises and organizations belonging to the Russian Federal Employment Service and financed by the Russian Federation State Fund for Employment of the Population.

**2.3. Facilities and Enterprises in Federal Ownership Whose Privatization Is Effected by Decision of the Russian Goskomimushchestvo Taking Account of the Opinion of Sector Ministries and Departments**

2.3.1. Enterprises in all sectors of the national economy (not indicated in Sections 2.1 and 2.2 of the Program) which account for more than 35 percent of specified goods, operations, and services on the federal market.

2.3.2. Large enterprises whose fixed capital had a book value of more than 1 billion rubles [R] on 1 January 1992.

2.3.3. Maritime and river transportation enterprises (other than those indicated in Section 2.2 of the Program).

2.3.4. Scientific research, planning, design, and prospecting institutes and facilities and experimental production facilities whose fixed capital had a book value of more than R1 million on 1 January 1992 (not indicated in Sections 2.1 and 2.2 of the Program).

2.3.5. Enterprises for the production, bottling, and packaging of spirits, liqueurs, vodkas, wines, and tobacco products.

2.3.6. Specialized enterprises for the production of baby food products.

2.3.7. Enterprises and organizations involved in providing catering for passengers on ships and at railroad stations, as well as workers' provisions for the maritime and river fleet.

2.3.8. Wholesale trade enterprises supplying goods for federal and state needs and those serving regions of the Far North and equivalent localities and the population of closed administrative-territorial formations (other than those indicated in Section 2.2 of the Program).

2.3.9. Printing enterprises and publishing houses (other than those indicated in Section 2.2 of the Program).

2.3.10. Specialized construction organizations carrying out the construction of facilities which ensure state security (other than those indicated in Sections 2.1 and 2.2 of the Program).

2.3.11. Facilities and enterprises whose construction and modernization is financed from state budget resources earmarked under special-purpose federal programs for overcoming the consequences of radiation disasters and which are located in resettlement zones, zones of residence with the right of resettlement, and zones of residence with privileged socioeconomic status defined by existing legislation for territories subjected to contamination by radionuclides, or outside the said zones.

2.3.12. Nuclear machine building facilities and enterprises.

2.3.13. Enterprises and facilities of the Russian Federal Service for Hydrometeorology and Environmental Monitoring (other than those indicated in Section 2.1 of the Program).

2.3.14. Oil and gas construction enterprises and facilities.

2.3.15. Enterprises for the production of construction materials and structures which account for more than 30 percent of the total volume of construction materials and structures produced in the Russian Federation.

2.3.16. Enterprises producing specialized equipment for cultural institutions.

2.3.17. Circus enterprises and organizations belonging to the "Rossiyskiy Tsirk" ["Russian Circus"] company.

2.3.18. Fishing, hunting, and forestry sport establishments; wild animal supply associations, holding stations, and catching units; fur sovkhozes (fur farms).

2.3.19. Specialized elevators and warehouse premises responsible for the permanent housing of state reserves, the formation of federal stocks, and the storage of mobilization reserves (other than those indicated in Section 2.1 of the Program).

2.3.20. Agrobiological industry facilities and enterprises and their subsidiary farms which are under the jurisdiction of the Russian Federation Ministry of Agriculture.

**Procedure for the Adoption of Decisions on the Privatization of Facilities and Enterprises Indicated in Sections 2.2 and 2.3 of the Program**

Decisions on the privatization of enterprises indicated in Sections 2.2 and 2.3 of the Program are adopted on the basis of Russian Federation laws and enactments of the Russian Federation president, respectively by the Russian Federation Government and the Russian Goskomimushchestvo and its territorial organs.

Privatization documents for enterprises in federal ownership are submitted to a property management committee with the status of a territorial agency of the Russian Goskomimushchestvo; the said committee must, within three days, send the documents:

—if the enterprise is included in Section 2.2 of the Program—to the Russian Goskomimushchestvo, with copies to the relevant sector ministry, state committee, committee, and financial organ;

—if the enterprise is included in Section 2.3 of the Program—to the financial organ for the locality in which the enterprise is located or registered, with copies and a draft decision on privatization to the relevant sector ministry, state committee, or committee.

Copies of privatization documents are also sent to the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures or its territorial administration, for facilities requiring their agreement; their findings are sent within three weeks to

the Russian Goskomimushchestvo (if the enterprise is included in Section 2.2 of the Program) or its territorial agency (if the enterprise is included in Section 2.3 of the Program).

Within two weeks of receiving the documents, sector ministries, state committees, and committees submit their findings on the expediency of privatization of facilities in federal ownership to the organ which is to adopt the decision on privatization.

For facilities and enterprises indicated in Section 2.3 of the Program, in the light of the findings of the relevant ministry, the decision on privatization is made by the leader of the territorial agency of the Russian Goskomimushchestva within one month of the documents being sent to the sector ministries and departments.

At the expiry of the prescribed period in which ministries, state committees, and committees can present conclusions on the impossibility of privatization, the leader of the territorial agency of the Russian Goskomimushchestvo must adopt a decision on privatization.

If the territorial agency refuses to carry out privatization or if there are disagreements over privatization issues between ministries and territorial agencies regarding the facilities and enterprises indicated in Section 2.3 of the Program, the Russian Goskomimushchestvo is entitled itself to examine the possibility of privatizing them in the light of the opinion of sector ministries and departments.

Regarding the facilities and enterprises indicated in Section 2.2 of the Program, the Russian Goskomimushchestvo submits draft directives to the Russian Federation Government within 15 days of receiving documents from the territorial agency and the conclusions of ministries and departments.

Within 10 days (or for military-industrial complex enterprises within one month) of receipt the Russian Federation Government examines the draft directives and adopts appropriate decisions.

If within the indicated period the Russian Federation Government has not adopted any decisions according to the prescribed procedure, the Russian Goskomimushchestvo within one month of the expiry of the period for the examination of documents by the Russian Federation Government adopts a decision on the possibility of privatization and the procedure for carrying it out. If the Russian Federation Government adopts a negative decision the Russian Goskomimushchestvo within the same period sends a copy of the Russian Federation Government directive to the relevant territorial agency.

In considering the question of the privatization of the enterprises indicated in Sections 2.2 and 2.3 the Russian Federation Government, the Russian Goskomimushchestvo, and the latter's territorial agencies may adopt the following decisions:

1. To prohibit privatization. In this case one of the following decisions must be adopted: to convert the

enterprise into an open-type joint-stock company in accordance with the Russian Federation president's Edict No. 721 of 1 July 1992 "On Organizational Measures To Reorganize State Enterprises and Voluntary Associations of State Enterprises as Joint-Stock Companies," retaining 100 percent of the shares in state ownership, or to convert the enterprise into a state institution financed from state sources.

2. To establish restrictions on privatization exclusively in the form of the retention of blocks of ordinary (voting) shares (51 percent, 38 percent, or 25.5 percent) in federal ownership or in the form of the issue of a "golden share."

3. To permit privatization without any restrictions. In converting into joint-stock companies the enterprises indicated in Sections 2.2 and 2.3, the Russian Federation Government and the Russian Goskomimushchestvo determine the aims, terms, and periods of the retention of blocks of shares a "golden share" in federal ownership in the light of the opinion of sector ministries, departments, and organs of state management of Russian Federation components.

Decisions on retaining blocks of shares in federal ownership can be made for a period of no more than three years and only in the amounts of 51 percent, 38 percent, and 25.5 percent of ordinary (voting) shares regarding enterprises and organizations in the following types of activity:

- communications;
- the generation and distribution of electric power;
- the extraction, refining, and sale of petroleum, natural gas, and gas condensate;
- the extraction and processing of precious metals, precious stones, and radioactive and rare-earth elements;
- the development, production, and maintenance of armaments, military hardware, and ammunition (including chemical and bacteriological);
- the production of liquor and liqueur and vodka products;
- enterprises directly carrying out shipments on water and air transportation, and also airports, seaports, and river ports;
- the patent service, standardization and metrology;
- research and development enterprises;
- specialized enterprises for the construction and operation of facilities intended to ensure national security;
- publishing houses and printing enterprises for the production of printed matter included in the volume of deliveries for state needs;
- pipeline transportation;

- circus enterprises and organizations within the "Rossiyskiy Tairk" company;
- wholesale trade enterprises carrying out purchases for state needs and export-import operations in support of interstate agreements.

The block of shares in privatized enterprises in the indicated sectors retained in federal ownership for a period of up to three years consists of ordinary shares which remain in the possession of the relevant property management committee until the expiry of the period indicated in the privatization plan or the adoption of a decision on early sale.

A decision to retain a block of shares consisting of 51 percent of ordinary (voting) shares can be made only on the basis of an edict of the Russian Federation president; a decision on a block consisting of 38 percent of ordinary (voting) shares can be made only by the Russian Federation Government. In converting into joint-stock companies enterprises in which a controlling interest is retained in federal ownership for a period of up to three years the Russian Federation Government and the Russian Goskomimushchestvo are entitled, in accordance with the powers laid down by the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation, to instruct such persons as they may decide, including officials of organs of state administration at the submission of the relevant ministries, departments, and regions, to represent on a contract basis the state's interests on the board of directors of the joint-stock company. Officials of organs of state administration appointed under the aforementioned procedure to the boards of directors of joint-stock companies carry out their activities on an unpaid basis.

In converting into joint-stock companies enterprises indicated in Sections 2.2 and 2.3 of the Program the Russian Federation Government or the Russian Goskomimushchestvo in the light of proposals from ministries and departments can adopt a decision on the issue of a "golden share" for a period of up to three years during the share flotation.

The simultaneous retention in state ownership of a "golden share" and other blocks of shares is not permitted.

If a "golden share" is issued concessions are granted to the labor collective according to the procedure laid down by the Program.

The Russian Federation Government and the Russian Goskomimushchestvo are entitled to adopt a decision to replace blocks of shares retained in federal ownership by a "golden share."

Dividends on shares retained in federal, state ownership are channeled entirely into funding social, cultural, and everyday facilities transferred as part of the process of converting the enterprise into a joint-stock company to the books sheet of local organs of power and remaining on the enterprise's books and used for the original

purpose, or, if there are no such facilities, are channeled into the federal budget under the procedure envisaged by a statute elaborated by the Russian Ministry of Finance in coordination with the Russian Goskomimushchestvo.

This procedure for the allocation of dividends may be changed only by decision of the Russian Federation Government.

The inclusion of state enterprises in the groups to which restrictions apply according to Sections 2.1 and 2.2 of the Program, the adoption of decisions to retain blocks of shares in state ownership or issue a "golden share," and also the representation by officials of organs of state administration of the state's interests on the boards of directors of joint-stock companies are carried out in accordance with the statute elaborated by the Russian Goskomimushchestvo and approved by the Russian Federation Government.

The fact that an enterprise has a defense order not exceeding 30 percent of the total volume of output sold by the enterprise, and also duties regarding mobilization preparation, the protection of state secrets, and the ensuring of safe working is no grounds for the retention of any blocks of shares in federal ownership when it is converted into a joint-stock company.

Shares in privatized enterprises not retained in federal ownership under Section 2.3 of the Program must be sold no later than four months from the time of registration of the joint-stock company and cannot be reserved in any way.

**2.4. Facilities and Enterprises in State (Municipal) Ownership Which Are Privatized in Accordance With the Present Program by Decision of the Organs of State Power and Administration of Republics Within the Russian Federation, Krays, Oblasts, the Autonomous Oblast, Autonomous Okrugs, and the Cities of Moscow and St. Petersburg and With Local Privatization Programs**

**2.4.1. Urban and suburban passenger transportation facilities and enterprises—except motor taxi facilities and enterprises—and also enterprises for their maintenance.**

**2.4.2. Bathhouses, laundries, service facilities, and social and cultural (health care, education, culture, and sport) enterprises and institutions.**

**2.4.3. Facilities and enterprises providing ritual services.**

**2.4.4. Garbage processing plants.**

**2.4.5. Pharmacies (with mandatory state licensing of their activities).**

**2.4.6. Facilities and enterprises in culture (including cinematography), physical culture, and sport in state (municipal) ownership.**

**2.4.7. Property which is on the books of local organs of power and administration and which ensures their activity.**



2.4.8. The utilities infrastructure facilities of cities and rayons (including power, heat, and gas supplies, water and sewage pipelines, and city streetlighting), and also enterprises operating, servicing, and maintaining the aforementioned facilities.

2.4.9. Enterprises manufacturing prosthetic products and performing prosthetic work (services) (including false teeth, the production of prostheses, and orthopedics, except as indicated in Point 2.1 of the Program).

2.4.10. Organizations belonging to the system for the population's social protection in state (municipal) ownership.

2.4.11. Children's dachas and camps, including those on the books sheet of privatized enterprises.

2.4.12. Regional and local airports.

2.4.13. Enterprises belonging to regional social support funds, including sanatorium and resort facilities within their charge.

2.4.14. Wholesale trade enterprises serving remote Arctic regions of the Extreme North, regions of the Extreme North, and regions with equivalent status with limited shipping seasons, including duty-tour settlements, the settlements of geophysical and geological parties, and the areas of habitation and economic activity of small Northern peoples.

2.4.15. Small-scale power industry enterprises using energy from small rivers, solar energy, wind energy, and geothermal energy and enterprises operating autonomously and not connected to the unified power system, with the exception of nuclear stations.

2.4.16. Regional and local seaports.

2.4.17. General-use motor highways and enterprises and organizations maintaining them (except as indicated in Section 2.1).

The restrictions on privatization laid down by the Program are mandatory for all organs of state power and administration and organs of local self-government. The aforementioned organs are forbidden to introduce additional restrictions on the privatization of enterprises or state and municipal property and the sale of shares in state and municipal ownership.

The privatization of facilities and enterprises to which the restrictions laid down by the Program apply is not permitted without the permission of the relevant organs.

The buying and selling, transfer, and exchange of stakes (holdings or portions of those holdings, shares) between corporate entities 25 percent or more of whose authorized capital (funds) is in state or municipal ownership.

#### **2.5. Facilities and Enterprises Subject to Mandatory Privatizations**

The following facilities and enterprises are subject to mandatory privatization:

2.5.1. Facilities and enterprises in wholesale and retail trade (including the sale of output for production and industrial purposes), public catering and everyday services, including departmental facilities in the open retail trade network, public catering, and everyday services (except as indicated in Sections 2.1-2.4 of the Program).

2.5.2. Facilities and enterprises (organizations) in construction and the construction materials industry (except as indicated in Sections 2.2 and 2.3 of the Program).

2.5.3. Food and light industry enterprises.

2.5.4. Mothballed facilities and uncompleted facilities whose normative construction times have expired (with the exception of nuclear station reactor units).

2.5.5. The property of enterprises eliminated without legal succession.

2.5.6. Motor transport enterprises, including motor taxi transport (except as indicated in Section 2.4 of the Program).

2.5.7. Enterprises subject to mandatory flotation defined by the Russian Federation president's Edict No. 721 of 1 July 1992.

2.5.8. Trade, public catering, and everyday service facilities and construction industry enterprises constructed with funds from the state and local budgets.

2.5.9. Debtor-enterprises in all sectors of the national economy (except as indicated in Section 2.1 of the Program).

2.5.10. Hotel complexes, hotels, motels, campgrounds, and boarding houses (except as indicated in Section 2.2 of the Program and those forming part of an enterprise's property).

2.5.11. Housing and municipal service enterprises (except as indicated in Section 2.4 of the Program).

#### **2.6. Privatization of Leased Facilities That Are Not Part of the Housing Stock**

Citizens engaged in entrepreneurial activity, enterprises in whose authorized capital the stake (holding) in state (municipal) ownership is no more than 25 percent, if their lease contract was concluded on a competitive or auction basis, and also partnerships and joint-stock companies created in the process of privatization have the right to acquire ownership of the nonresidential premises in apartment blocks which they lease, including built-in and built-on premises, and also buildings and installations in Russian Federation ownership and in the state ownership of republics within the Russian Federation, kraya, oblasts, autonomous formations, and the cities of Moscow and St. Petersburg, and also in municipal ownership.

The sale of leased facilities that are not part of the housing stock is carried out by the relevant property management committee on the basis of an application by

the leaseholder. Restrictions may not be imposed on the resale of purchased facilities that are not part of the housing stock.

A refusal to sell to the leaseholders the leased immovable property (buildings, installations, the parcels of land on which they are located), and also nonresidential premises in apartment blocks, including built-in and built-on premises, indicated in Point 2.6 of the Program is permitted only if the restrictions laid down by Section 2.1 of the Program apply to these facilities, and [is] also [permitted] in relation to buildings and installations that are immovable objects of historical and cultural significance, religious buildings, and buildings and installations occupied by organs of state power and administration, and also by courts.

The price at which leaseholders acquire ownership of buildings, installations, and the parcels of land on which they are located, which constitute immovable property, and also nonresidential premises in apartment blocks, including built-in and built-on premises, is established according to the procedure defined by Article 17 of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation." Auction and competitive sale is permitted only regarding unoccupied or unused facilities that are not part of the housing stock.

The proceeds from the sale of leased facilities that are not part of the housing stock are allocated in accordance with the norms envisaged by the Program.

### 3. Calculated Privatization Indicators for Organs of State Power and Administration

3.1. In the light of the aims of privatization and also of the structure and scale of privatization demand at the territorial and sector levels, the Russian Goskomimushchestvo sets for republics within the Russian Federation, kraya, oblasts, the autonomous oblast, autonomous okruga, and the cities of Moscow and St. Petersburg calculated targets for the flotation and privatization of enterprises in the form of a cumulative total and for the realization of privatization checks, these targets forming an integral part of the Program. The calculated indicators are conveyed to the regions within one month of the adoption of the Program and may be clarified quarterly by the Russian Goskomimushchestvo.

3.2. On the basis of the targets the property management committees of republics within the Russian Federation, kraya, oblasts, the autonomous oblast, autonomous okruga, and the cities of Moscow and St. Petersburg elaborate local privatization programs and forecast receipts of privatization checks and money as a result of privatization. The local privatization programs approved by the relevant organs of power are submitted to the Russian Goskomimushchestvo and the Russian Federal Property Fund.

### 4. The Formation and Distribution of the Proceeds of Privatization

4.1. By the funds received as a result of privatization is meant the entire proceeds in money and privatization checks from the sale of privatized facilities and the revenue received in the privatization process in the form of registration fees, guarantees, and other revenue.

The dividends from shares belonging to the state and rent payments for the leasing of state and municipal property are not included in the funds from privatization and are paid into the corresponding budget minus bank charges (except for instances indicated in Sections 2.3 and 6 of the Program).

4.2. The total revenue from privatization in 1994 is estimated at R0.7 trillion in privatization checks and R0.8 trillion in cash.

The dividends on shares retained in federal and state ownership in 1994 are estimated at R200 billion.

4.3. The funds from privatization, including privatization checks, are distributed according to normative in conformity with Appendix No. 1 to the Program in the following order: With labor collectives, money settlements are made with privatization organs and local budgets and payments are made into the Federal Enterprise Support Fund; privatization checks count toward the funds paid into the Russian Federation republic budget and the corresponding budgets of republics within the Russian Federation, kraya, oblasts, the autonomous oblast, autonomous okruga, and the cities of Moscow and St. Petersburg.

If blocks of shares are retained in state ownership, the remainder [of the shares] is treated as 100 percent during the distribution of the funds received from privatization.

4.4. The Russian Federation Government is entitled to adjust the indicators and normative for the distribution of the funds received from privatization in the light of the state of the Russian Federation's financial system, conditions in the property market, and proposals from the relevant privatization organs.

4.5. The funds received from privatization are not liable to taxation.

4.6. The activities of property management committees and property funds at all levels are not taxed, including deals for other sales of state and municipal property.

4.7. The funds received from privatization are paid into budgets at the corresponding levels according to the established normative and are channeled exclusively:

—into maintaining social, cultural, and everyday facilities, including those that do not form part of the property of a joint-stock company and those that are transferred into the charge of local organs of power during the privatization process;

—into financing measures for the post-privatization support of enterprises.

4.8. In cities under rayon jurisdiction and in cities with administrative-territorial divisions (rayons, settlements), the funds from privatization channeled into local budgets can, at the petition of the heads of administration of cities and urban rayons (settlements) and by decision of the heads of administration of cities and rayons during the sale of municipal property or [by decision] of the organs of state power of Russian Federation components during the sale of state property, be channeled by the sellers into the budgets of these administrative-territorial formations in order to fund the maintenance of social, cultural, and everyday facilities transferred to municipal ownership during the privatization of enterprises.

4.9. The Russian Ministry of Finance Control and Auditing Administration together with the Russian Goskomimushchestvo monitors the timeliness and correctness of privatization organs' payments to budgets at various levels.

#### **5. Methods of Privatization and Concessions Granted During Privatization**

The specific method of privatizing an enterprise is determined by the privatization working commission or the privatization commission of the relevant property management committee in accordance with the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation," the Russian Federation president's Edict No. 721 of 1 July 1992 "On Organizational Measures To Convert State Enterprises and Voluntary Associations of State Enterprises Into Joint-Stock Companies," the state and local privatization programs, and normative acts not contravening the present Program.

It is laid down that amendments and additions to Section 2 of the privatization plan can be made by the Russian Goskomimushchestvo, with mandatory notification of the relevant financial organs and enterprises undergoing privatization. It is not permitted to make amendments and additions to the privatization plan after publication of the announcement of the sale of a privatized facility.

5.1. All state (municipal) enterprises are divided into two groups in relation to the privatization methods they employ:

—the first group includes small enterprises with fixed capital of a book value as of 1 January 1992 of no more than R1 million which are subject to sale by auction, competitive tender, and investment competition. The labor collectives of these enterprises are entitled, by a qualified majority of two-thirds of the votes of all members (at a general meeting or else confirmed by sheets of signatures), to choose the method of sale: at auction or by investment competitions without restriction on the participants. This decision is binding on the relevant property management committees;

—the second group includes all other enterprises, which may be privatized by any method envisaged in Point 5.2 of the Program.

In the event of a failure to fulfill the requirements of the present Program, the Russian Federation president's Edicts No. 721 of 1 July 1992 and No. 1228 of 14 October 1992 "On the Sale for Privatization Checks of Housing Stock, Parcels of Land, and Municipal Property," or Decree No. 757 of the Russian Federation Council of Ministers-Government dated 10 August 1993 "On the Implementation of Additional Measures To Protect the Right of Russian Citizens To Take Part in Privatization," property management committees (ministries and departments) are entitled under the established procedure to decide to dissolve contracts concluded earlier with enterprise leaders or, in the absence of contracts, to dismiss them from their posts. In this case the conversion of enterprises into joint-stock companies takes place on the initiative of the relevant property management committee under the established procedure, with members of their labor collectives being granted concessions only under the first option (Point 5.3.1) in the Program.

5.2. Under the procedure established by the Program the use of the following privatization methods is envisaged:

- the sale of shares in open-type joint-stock companies created during the privatization process;
- the sale of enterprises that are not joint-stock companies at auctions;
- the sale of enterprises that are not joint-stock companies by commercial tender (including tenders with restrictions on participants);
- the sale of blocks of shares in joint-stock companies by investment competition;
- the sale of the property (assets) of functioning enterprises, enterprises in the process of being liquidated, and liquidated enterprises, and also of facilities whose construction is unfinished, at auctions and by tender;
- the purchase of leased property; the sale of enterprises to partnerships created in accordance with the additional concessions envisaged by Point 5.16;
- the sale of stakes (holdings, shares) in state or municipal ownership by auction and commercial tender, including tenders with restrictions on the participants.

#### **5.3. The Sale of Shares in an Open-Type Joint-Stock Company Created in the Process of Privatizations**

##### **A. Concessions to Members of the Labor Collective in Converting a State (Municipal) Enterprise Into an Open-Type Joint-Stock Company**

5.3.1. During the sale (free transfer) of shares in open-type joint-stock companies created via the conversion of state and municipal enterprises (including those previously converted into closed-type joint-stock companies), the enterprise labor collective decides to apply one of the



options for granting concessions to the labor collective of a privatized enterprise envisaged by the Program, and these concessions also extend to:

- workers for whom the enterprise in question is their main workplace; former workers who have at least 10 years' record of work at the privatized enterprise for men and at least 7 years six months' for women and who left at their own request (including by virtue of transfer to other work), as a result of downsizing or staff reductions, and also during the reorganization of enterprises;
- persons having the right under Russian Federation legislation to return to their former job at the enterprise, including persons drafted into military service while working at a state (municipal) enterprise before its conversion into a joint-stock company, provided that they return to their former job within three months of demobilization;
- pensioners who made their pension arrangements and retired at the enterprise in question;
- persons dismissed from the enterprise as a result of downsizing or staff reductions after 1 January 1992 and registered as unemployed;
- workers of these enterprises who retired on an invalidity pension as a result of on-the-job injury or occupational disease;
- family members who are the heirs of workers at the enterprise who died at the given production facility.

All persons to whom the concessions in question apply are included in the number of personnel on equal terms with the workers for whom the enterprise is the main workplace.

#### Option 1

All members of the labor collective of the privatized enterprise and persons of equivalent status and the right to concessions:

- receive a one-time free transfer of personalized privileged (nonvoting) shares making up 25 percent of the authorized capital but totaling no more than 20 times the legally established minimum wage per worker;

ordinary shares making up to 10 percent of the authorized capital but totaling no more than six times the legally established minimum wage per worker are sold by restricted subscription to members of the labor collective at 30 percent below face value with payment by installments over up to three months; the size of the initial installment cannot be less than 50 percent of the face value of the shares.

The administration of the privatized enterprise—the leader, his deputy, the chief engineer, the chief accountant, the leader of a separate subsidiary structural component or subsidiary—on the basis of the terms of the contracts concluded with them is granted the right to purchase at face value ordinary shares worth a total of up

to 5 percent of the authorized capital, but no more than 2,000-times the minimum wage established by Russian Federation legislation per person.

At enterprises with an average staff of over 10,000 people and with separate subsidiary structural components, shops, and sections, and also in cases where a privatization plan envisages the restructuring of an enterprise and the formation of subsidiary enterprises, the list of administration officials with the right to this concession may be extended by decision of the labor collective.

#### Option 2

All members of the labor collective of the enterprise being privatized and persons of equal status who are entitled to concessions are given the right to acquire ordinary (voting) shares representing up to 51 percent of the authorized capital.

In this event:

- there is no free transfer or sale of shares on concessionary terms;
- the selling price of shares is determined according to the Statute on Restricted Subscriptions ratified by the Russian Goskomimushchestvo.

#### Option 3

If a group of enterprise workers or any individual or corporate entity, recognized as purchasers under Article 9 of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation," undertakes responsibility for fulfilling the enterprise's privatization plans and preventing its bankruptcy and acquires the consent of the labor collective's general meeting to conclude the appropriate contract whose term cannot exceed one year (without the right to extend it), the members of this group are given the right to acquire 30 percent of the authorized capital in the form of ordinary shares in the enterprises at nominal value when the aforementioned term has expired and the conditions of the aforementioned contract have been fulfilled.

The procedure for concluding the shares acquisition contract with the group of workers is prescribed by the statute approved by the Russian Goskomimushchestvo.

While the contract is in force, the aforementioned group is given the right to vote on behalf of all shares held by the relevant property fund.

The privatization plan incorporates the conditions of the contract, whose conclusion with the aforementioned group of joint-stock company founders is mandatory. The contract defines the group members' obligations and the limit of their material liability guaranteed by privately-owned property (pledged by way of a mortgage) amounting to at least 200 times the minimum wage prescribed by Russian Federation legislation at the time the mortgage is pledged per group member.

Under this option, ordinary shares are sold to all enterprise workers (including the group members) to a total value of 20 percent of the authorized capital but not in excess of 20 times the minimum wage prescribed by Russian Federation legislation per worker, with a 30-percent discount on the face value and a three-month deferment of payment. Furthermore, the amount of the first instalment cannot be less than 25 percent of the share's face value.

In the event of the group failing to fulfill the contract conditions, the shares due to be sold to this group's members are sold to the population at check auctions (at money auctions after 1 July 1994).

The procedure for the allocation of shares to be transferred without payment (when Option 1 is chosen) is determined by a general meeting (conference) of the labor collective by a simple majority of votes.

The sale of shares to labor collective members and persons of equal status within the limits of the concessions prescribed by this Program is effected by way of restricted subscription in accordance with the statute approved by the Russian Goskomimushchestvo.

Property management committees are permitted to extend to three months the deadline for holding restricted subscriptions for shares among enterprise workers on the basis of specific enterprises' specific production activity. The sale of shares transferred to property funds can be effected prior to the conclusion of the restricted subscription.

The decision on the choice of option of concessions prescribed by the Program is adopted by a general meeting of the labor collective or is certified by a list of its members' signatures. The decision is deemed adopted if at least two-thirds of the total number of enterprise workers have voted (signed) in favor of it. In the absence of such a decision, concessions are granted according to Option 1.

The workers of enterprises belonging to the same technological complex as the enterprise being privatized, regardless of the concessions option which has been chosen by decision of the labor collective, are given the right to participate in the restricted subscription to shares held among workers of the enterprise being privatized on the same conditions.

5.3.2. Any shares acquired or received free by citizens or corporate entities can be sold by the owner without any restrictions. The imposition of restrictions is prohibited.

5.3.3. The determination of the initial price of state (municipal) enterprises when being sold at auction or via commercial (noncommercial) or investment tender is effected according to the procedure prescribed by the Interim Methodological Recommendations for Estimating the Value of Facilities Being Privatized, ratified by Edict No. 66 of the Russian Federation president of 29 January 1992 "On

Accelerating the Privatization of State and Municipal Enterprises," with due consideration for the amendments introduced by Directive No. 763 of the Russian Goskomimushchestvo of 13 November 1993 "On Some Questions Concerning the Application of the Interim Methodological Recommendations for Estimating the Value of Facilities Being Privatized."

The valuation of property is effected on the basis of balance sheet figures for the accounting quarter preceding the computation of the valuation. The value of fixed assets represented by incomplete construction work and uninstalled equipment is determined in the valuation document without taking into account the results of the revaluation of fixed assets conducted in accordance with Decree No. 595 of the Russian Federation Government of 14 August 1992 "On the Revaluation of Fixed Assets (Capital) in the Russian Federation" or any subsequent revaluation of fixed assets.

The actual profit earned by enterprises in 1993-1994 is not a source for forming the enterprise workers' privatization fund and is not excluded from the value of property when determining the enterprise's initial price.

5.3.4. When state (municipal) enterprises are being converted into open-type joint-stock companies, the amount of authorized capital is determined on the basis of balance sheet figures as at 1 July 1992 without taking into account the results of the revaluation of fixed assets conducted in accordance with Decree No. 595 of the Russian Federation Government of 14 August 1992 "On the Revaluation of Fixed Assets (Capital) in the Russian Federation" or any subsequent revaluation of fixed assets, or any foreign currency items appearing on the balance sheet.

In this event the following are applied in order to determine the option of concessions offered to labor collective members:

—the minimum wage as at 1 July 1992 (900 rubles [R]);

—the average numerical strength of the enterprise's work force according to figures reported for the first six months of 1992.

All changes in the composition and value of property since 1 July 1992 are treated as changes to the composition and value of property owned by the joint-stock company.

The actual profit earned by enterprises in 1993-1994 is not a source for forming the enterprise workers' privatization fund and is not excluded from the value of property when determining the amount of authorized capital.

5.3.5. The amount of authorized capital of joint-stock companies created via the conversion of state (municipal) enterprises founded (registered) since 1 July 1992 is determined on the basis of balance sheet figures for the accounting quarter preceding the valuation.

When determining the amount of authorized capital, the value of fixed assets represented by incomplete construction work and uninstalled equipment is determined in the valuation document without taking into account the results of the revaluation of fixed assets conducted in accordance with Decree No. 595 of the Russian Federation Government of 14 August 1992 "On the Revaluation of Fixed Assets (Capital) in the Russian Federation" or any subsequent revaluation of fixed assets.

In this event the following are applied to determine the option of concessions offered to labor collective members:

- the minimum wage in effect at the time when the state (municipal) enterprise was registered (founded);
- the average numerical strength of the enterprise's work force according to figures reported for the six months preceding the valuation.

5.3.6. With a view to safeguarding the interests of stockholders, any increase in the joint-stock company's authorized capital is prohibited until 90 percent of the stock of the enterprise being privatized is sold.

#### B. Concessions to Members of the Labor Collective and the Administration of an Enterprise Being Privatized Offered Following the Completion of the Sale of Shares for Privatization Checks

5.3.7. The following rights are granted in the event that more than 80 percent of the joint-stock company's shares are sold and the volume of shares set by legislation for sale against privatization checks is also sold:

- members of the labor collective of the enterprise being privatized can begin purchasing (partially acquiring without payment) shares from the enterprise workers' flotation fund, provided that this fund was incorporated in a privatization plan ratified prior to the Program's promulgation;
- the joint-stock company can, as part of the privatization process, buy the plot of land on which the enterprise being privatized stands in accordance with current legislation. In this process, the vendors of such land plots are the relevant property funds. The distribution of funds acquired as a result of the sale of land plots is effected according to norms contained in Appendix No. 1 to this program.

#### Appendix No. 1 to the Program: Normatives for the Distribution of Funds Earned as a Result of Privatization\*

Category of fund recipients	Normatives for the distribution of funds earned as a result of privatization following settlement with labor collective members for facilities in municipal ownership (in percentages)	Normatives for the distribution of funds earned as a result of privatization following settlement with labor collective members for facilities in federal ownership or owned by republics within the Russian Federation, the autonomous oblast, autonomous okrugs, krais, oblasts, or the cities of Moscow and St. Petersburg (in percentages)	Normatives for the distribution of funds earned as a result of the sale of property (except property owned by enterprises) administered by the Russian Federation Armed Forces, the Russian Federation Federal Counterintelligence Service, and the Russian Federation Ministry of Internal Affairs (in percentages)
Local budgets	45	10	-
Budgets of republics within the Russian Federation, krais, oblasts, the autonomous oblast, and autonomous okrugs	25	45	-
Federal budget	20	30	100**
Federal Enterprise Support Fund	-	5	-
Russian Goskomimushchestvo	1.7***	1.7***	-
Property management committees, territorial agencies of Russian Goskomimushchestvo	4.5	4.5	-
Russian Federal Property Fund	0.3	0.3	-
Property funds of national-state, national-territorial, and administrative-territorial formations	3.5	3.5	-

\*The norms for the distribution of funds earned as a result of privatization to the accounts of relevant property funds and committees for the management of property come into force 1 January 1994.

\*\*Funds are distributed in accordance with the statutes elaborated by the relevant ministries, with 1 percent of the aforementioned funds being used to encourage the activity of privatization process organizers.

\*\*\*At least 50 percent of the funds earned as a result of privatization and received by the Russian Goskomimushchestvo are channeled into the holding of check auctions. If the holding of check auctions and check investment tenders results in a shortage of the cash available for transfer to the privatization organs under the norms prescribed by this table, the shortage in question is made up from local budget funds.

The management of these funds is effected by a joint group comprising representatives of the Russian Goskomimushchestvo and the Russian Federal Property Fund.



**C. Concessions for Members of the Labor Collective and the Administration in the Event of a Controlling Interest Remaining in State (Municipal) Ownership**

5.3.8. In the event of a controlling interest remaining in state (municipal) ownership, concessions to enterprise workers are offered as follows:

- if the controlling interest totals 51 percent of the total stock, all members of the labor collective and persons with equal status receive as a one-shot transfer and without payment personally-registered privileged stock comprising 25 percent of the authorized capital but not more than 20 times the minimum wage set by Russian Federation legislation per worker. No other concessions are offered;
- if the controlling interest totals 38 percent of the total stock, then concessions to labor collective members and persons of equal status are offered in accordance with Option 1 of concessions (Point 5.3.1. of the Program).

No enterprise workers' flotation fund is formed in either case, and all remaining unallocated shares are subject to sale at specialized check auctions (money auctions after 1 July 1994).

If 25.5 percent of the shares remain in state ownership, concessions to labor collective members and persons of equal status are offered in accordance with Option 1 of concessions, and all remaining stock is subject to sale at specialized check auctions.

**D. Acquisition (Sale) of Stock from Enterprise Workers' Flotation Fund**

5.3.9. No provision is made for the creation of an Enterprise Workers' Flotation Fund (hereinafter referred to as FARP) at enterprises which have filed a privatization application since 1 February 1994.

The acquisition (sale) of stock from the FARP is effected according to the procedure prescribed by the Russian Federation Government and this Program. When state and municipal enterprises are converted into open-type joint-stock companies, a FARP can be formed following a proposal by the labor collective by using a contribution from the relevant property fund, provided its total value does not exceed 10 percent of the enterprise's authorized capital if Option 1 or Option 3 of concessions has been chosen, or 5 percent thereof if Option 2 of concessions for labor collective members has been chosen.

The transfer of shares from the FARP is effected when 80 percent of the shares have been sold and following completion of the sale of the amount of shares prescribed by legislation for sale against privatization checks. Furthermore, a proportion of the total amount of FARP shares, comprising one-tenth of the total amount of shares in the relevant joint-stock company sold against privatization checks (excluding shares sold or transferred to the labor collective on concessionary terms), is to be transferred without payment to labor collective members.

The FARP is formed for a term of not more than two years from the time the joint-stock company is registered. The right to acquire shares from the FARP is vested in labor collective members whose main job is with the relevant joint-stock company.

**5.4. Sale of Joint-Stock Companies' Shares at Specialized Check Auctions**

5.4.1. The main form of share sale through 1 July 1994 is the sale of shares at specialized check auctions, whose procedure is determined by the Russian Goskomimushchestvo, as well as at interregional specialized check auctions and interregional all-Russia specialized check auctions held in accordance with Decree No. 786 of the Russian Federation Council of Ministers-Government of 10 August 1993 "On the Sale of Shares at Interregional Specialized Check Auctions."

The conditions for holding interregional and interregional all-Russia specialized check auctions are regulated by the Russian Goskomimushchestvo. All holders of privatization checks recognized as purchasers in accordance with Russian Federation legislation are permitted to participate in specialized check auctions.

5.4.2. A specialized check auction is a means for selling shares by bids, whereby:

- all winning bids acquire shares at a uniform price; participation in the auction is gained by submitting one of two types of application, indicating either only the amount of privatization checks (Category 1 application), or the amount of privatization checks for shares indicating a minimum number of nominal value shares per privatization check (Category 2 application);
- persons submitting Category 1 applications are always among the bid winners.

The sale of shares at specialized check auctions is effected by the relevant property fund, property management committee or its representative, or the enterprise being privatized, in accordance with Edict No. 1229 of the Russian Federation president of 14 October 1992 "On Developing the Privatization Check System in the Russian Federation."

The application of different procedures for holding specialized check auctions, except as prescribed by directive No. 701 of the Russian Goskomimushchestvo of 4 November 1992, is prohibited.

The sale of shares in enterprises being privatized at specialized check auctions is effected in accordance with privatization plans endorsed by property management committees and with schedules for the holding of specialized check auctions which are mandatory for property funds. Furthermore, the sale of shares at specialized check auctions is permitted before the completion of the restricted subscription for shares among labor collective members.

5.4.3. An interregional specialized check auction is an auction held according to the procedure prescribed by

the Statute for Specialized Check Auctions ratified by Directive No. 701 of the Russian Goskomimushchestvo of 4 November 1992. The collection of applications for participation in interregional specialized check auctions must be organized simultaneously on the territory of at least five components of the Russian Federation.

5.4.4. An interregional all-Russia specialized check auction is an auction held according to the procedure prescribed by the Statute for Specialized Check Auctions ratified by Directive No. 701 of the Russian Goskomimushchestvo of 4 November 1992, and the collection of applications for participation in it must be organized simultaneously on the territory of at least 25 components of the Russian Federation.

When an interregional all-Russia specialized check auction is being held, it is mandatory to organize the collection of applications in the city of Moscow.

5.4.5. Property funds ensure the sale of at least 29 percent of the shares of a joint-stock company in accordance with the privatization plan (with the exception of joint-stock companies created on the basis of fuel and energy complex enterprises being privatized in accordance with the Russian Federation president's Edicts No. 923 of 15 August 1992, No. 1333 and No. 1334 of 5 November 1992, No. 1403 of 17 November 1992, and No. 1702 of 30 December 1992) not later than two months following the transformation and exclusively at specialized check auctions.

The shares of joint-stock companies created in the process of privatization and held in federal ownership, the book value of whose fixed assets exceeds R250 million, are eligible for sale exclusively at interregional and interregional all-Russia specialized check auctions held by property funds in accordance with the Statute for Holding Interregional All-Russia Specialized Check Auctions ratified by Directive No. 1853 of the Russian Goskomimushchestvo of 28 October 1993 and in accordance with the schedule endorsed by the Russian Goskomimushchestvo.

5.4.6. In the event that a joint-stock company's shares are offered as payment for the authorized capital of another joint-stock company (holding company), shares in the latter to the equivalent nominal value must be sold at a specialized check auction and reflected in this joint-stock company's privatization plan. Furthermore, it is mandatory for sale of the shares to be held also in the home region of the joint-stock company whose shares were invested in the holding company.

After 1 July 1994 shares will be sold at auctions for money in accordance with the statute ratified by the Russian Goskomimushchestvo.

#### **5.5. Sale of Enterprises Which Are Not Joint-Stock Companies at Auctions**

A sale at auction occurs when, as a result of open bidding, individuals or corporate entities acquire as private property facilities being privatized and the purchasers are not required to fulfill any conditions whatsoever as regards the facility being privatized.

The right of ownership is transferred to the purchaser who offers the highest price in the course of the bidding.

In this event, workers of the enterprise being privatized, as well as persons dismissed from this enterprise as a result of personnel cutbacks or downsizing since 1 January 1992 and registered as unemployed who have not acquired any ownership right as a result of the auction, will receive 30 percent of the money thus earned, but not more than 40 times the minimum wage set by Russian Federation legislation per worker.

#### **5.6. Sale of Enterprises Which Are Not Joint-Stock Companies by Commercial Tender (Including Tender with Limited Number of Participants)**

5.6.1. A sale by commercial tender occurs when individuals or corporate entities acquire as private property facilities being privatized and the purchasers are required to fulfill some conditions as regards the facility being privatized. The list of tender conditions is determined in accordance with the Statute for the Privatization of State and Municipal Enterprises in the Russian Federation by Tender. The imposition of any conditions not contained in the aforementioned statute is not permitted.

The retention of the privatized facility's specialization and the prohibition of breaks in its work of for more than two months following the purchase-sale and (or) for a total of three months during a calendar year are mandatory conditions for the sale by tender of all facilities in the trade network, public catering, and everyday services. Any changes in the privatized facility's work schedule resulting in reductions are permitted only by agreement with the local administration.

In the event that workers of the enterprise being privatized, as well as persons dismissed from this enterprise as a result of personnel cutbacks or downsizing since 1 January 1992 and registered as unemployed, have not acquired any ownership right as a result of the tender, they will receive compensation equivalent to 20 percent of the money thus earned, but not more than 30 times the minimum wage set by Russian Federation legislation per worker.

5.6.2. Commercial tenders take the form of open auction bids or closed tenders. The acquisition right goes to the purchaser who has offered the highest price.

Sale by commercial tender with limited participation is permitted (in accordance with local privatization programs) only for the privatization of trade network, public catering, or everyday services enterprises located in rural localities, urban-type settlements, Far North regions, and equivalent localities.

Only workers in the enterprise being privatized and residents of the region in question are permitted to participate in such tenders.

**5.7. Sale of Blocks of Shares in Joint-Stock Companies by Competitive Investment Tender**

Competitive investment tenders are used for the sale of blocks of shares in joint-stock companies belonging to the state when the purchasers are required to make investments.

The criterion used to determine the winning bid is the total amount of investment discounted for the entire period of the investment commitment by the discount rate of the Central Bank of the Russian Federation at the time the tender is held.

The following are mandatory requirements for competitive tendering:

- within one month from the conclusion of the competitive investment tendering, the winner must deposit in the enterprise's current account at least 20 percent of the total amount being invested (with 0.5 percent of this sum being remitted by the investment tender winner in equal shares to the accounts of the relevant property management committees and property fund); by decision of the Russian Federation Government the amount of the initial investment deposit may in individual cases be reduced to 10 percent;
- the investment deposit term is not more than three years;
- payment for the block of shares sold by investment tender is calculated at the stock's nominal value.

All investment tenders are open, in other words they are open to competition by all interested individuals and corporate entities.

Investment tenders are held in accordance with the statute ratified by the Russian Goskomimushchestvo.

A debt which an enterprise whose stock is being sold by investment tender owes to a bid-winning creditor is reduced by an amount equivalent to the latter's investment.

5.8. When state and municipal enterprises (and the property of enterprises in the process of liquidation) are sold by tender or at auction, a partnership (joint-stock company) comprising at least one-third of the total work force of the enterprise (subsidiary component) being privatized is offered a 30-percent discount on the sale price and a deferment of payment for up to three months. The amount of the initial deposit set by the privatization plan or, where the requisite written record is lacking, by the vendor, cannot be less than 25 percent of the sale price and can be paid by the purchaser in the following form: up to 80 percent in privatization checks and the remainder in cash.

5.9 Individuals and corporate entities who have become owners of privatized state and municipal enterprises at an auction (tender) are given the right to conclude long-term (for a term of at least 15 years) contracts to lease any state (municipal) nonresidential premises,

buildings, or structures occupied by these enterprises and not included in the inventory of property acquired by the purchasers, as well as to acquire ownership rights to the aforementioned nonresidential premises, buildings, or structures immediately after the contract for the purchase-sale of the enterprise has come into force. In this event, the relevant committee for the management of property is the vendor. Such a buy-out is effected at a price to be determined according to the methodology to be ratified by the Russian Goskomimushchestvo.

The owners of privatized state (municipal) enterprises have the exclusive right to acquire property rights to the land plots occupied by these enterprises.

Any change in the terms of the contract for leasing the aforementioned premises, buildings, and structures from a previously concluded contract is permitted only subject to the parties' agreement, unless otherwise provided by the contract's terms.

5.10. In cases when, in the process of holding an auction (tender) for the sale of enterprises being privatized, an individual or corporate entity recognized as a purchaser in accordance with Article 9 of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" is the sole participant in the auction (tender), any enterprise located in a rural locality or a workers' settlement will be sold to the aforementioned person at 10 times the property's value as determined in accordance with the valuation document, and at 100 times that value if the enterprise is located in an urban area.

In the event envisaged in Point 5.8. of this Program, the enterprise workers or the partnership (joint-stock company) who have purchased the enterprise will be offered no concessions.

5.11. When an enterprise is sold by tender or at auction in the process of privatization, the amount of deposit (earnest money) required to be paid by participants in the tender or auction is set at 100 percent of the facility's starting price, but not more than 1,000 times the minimum wage set by Russian Federation legislation.

**5.12. Sale of Property (Assets) of Operating Enterprises, Enterprises in the Process of Liquidation, and Liquidated Enterprises, and of Incomplete Construction Projects, by Tender, at Auction, or by Investment Tender**

5.12.1. The sale of property (assets) of enterprises in the process of liquidation and liquidated enterprises is effected exclusively at auctions by the relevant property funds (property management committees) in accordance with a statute to be ratified by the Russian Goskomimushchestvo.

In this event workers of the enterprise, as well as persons dismissed from this enterprise as a result of personnel cutbacks or downsizing since 1 January 1992 and registered as unemployed, will be paid a sum of up to 50 percent of the cash earned as a result of the sale of the



property (assets) after satisfying the creditors' demands, but not more than 40 times the minimum monthly wage set by Russian Federation legislation per worker.

5.12.2. The sale of the property (assets) of operating state (municipal) enterprises is effected exclusively for cash, subject to permission from the relevant property management committee, at auction organized by the property fund according to procedures to be determined by the Russian Goskomimushchestvo.

In this event 80 percent of the funds earned as a result of the sale of property remain at the enterprise's disposal and cannot be allocated for wage payments, while 20 percent will be distributed in accordance with the norms for the distribution of funds from privatization prescribed in Appendix No. 1 of this Program.

The results of the auction are formalized in a purchase-sale contract.

5.12.3. The privatization of the assets of incomplete construction projects is effected exclusively for money taking into account the opinion of ministries and departments:

- via the sale of these facilities' assets at auction or by tender;

- via the registration of an open joint-stock company with 100-percent state capital with subsequent sale of stock.

The distribution of money revenue from the sale of the assets of incomplete construction projects is effected as follows:

- 50 percent to the enterprise from whose property portfolio the assets of the incomplete construction projects were taken;

- the remaining money is distributed equally between the relevant property management committee and property fund and is channeled into financing the privatization process.

The decision to choose one of the aforementioned methods for the privatization of incomplete construction projects is adopted by the relevant property management committee.

Working commissions for the privatization of state (municipal) enterprises have the right to make decisions on excluding incomplete construction projects from the assets of an enterprise being privatized. The compilation of the final balance sheet is assigned to the relevant property management committee. In this event the incomplete construction projects will be privatized by the relevant property management committee exclusively for money as facilities being state (municipal) property.

### 5.13. The Sale of Debtor Enterprises

5.13.1 The sale of debtor enterprises is effected in accordance with an edict of the Russian Federation president.

5.13.2. With a view to preventing insolvency (bankruptcy) the Federal Administration for Insolvency (Bankruptcy) Affairs under the Russian Goskomimushchestvo ensures the examination of questions and the adoption of decisions on compulsory privatization of state enterprises which cannot pay their debts and have an unsatisfactory balance sheet structure (with the exception of enterprises whose privatization is prohibited in accordance with the Program).

A compulsory privatization decision adopted by the said Federal Administration and documents drawn up by it are mandatory for the appropriate property management committee to privatize the enterprise.

The privatization of enterprises for which privatization restrictions have been prescribed is effected in accordance with a procedure determined by Russian Federation privatization legislation.

5.13.3. The requirements of Point 5.13 [as published] apply to all state (municipal) enterprises where the proportion in state ownership exceeds 25 percent and is eligible for privatization.

### 5.14. The Privatization of Leased State and Municipal Property

5.14.1. The purchase of leased state and municipal property is effected by leasing enterprises whose form of legal organization has been brought into line with Articles 9-12 of the RSFSR Law "On Enterprises and Entrepreneurial Activity."

5.14.2. The purchase of state and municipal property under leasing contracts with a right-to-buy clause which were concluded prior to the entry into force of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" and which define the timing, cost, procedure, and terms for proceeding with the purchase is effected on the basis of a declaration by the leaseholder in accordance with the said contract.

5.14.3. The purchase of state and municipal property under leasing contracts with a right-to-buy clause which were concluded prior to the entry into force of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" but which do not define the timing, cost, procedure, or terms for proceeding with the purchase is effected as follows:

- in instances when the value of the state (municipal) property indicated in the contract was no more than R1 million at the moment it was leased—on the basis of an additional agreement concluded by the appropriate property management committee with the leasehold enterprises (enterprise components) on purchasing the leased property and determining the cost of the purchase, following a declaration by the leaseholder. Unless it is laid down in the leasing contract, the cost of the purchase is defined as 10 times the value of the leased property. Additional agreements

cannot be concluded with leasehold enterprises providing services for citizens and other enterprises and organizations in the sphere of trade, public catering, or everyday services which included structural components (stores, workshops, and so forth) at the time the contract was concluded;

—in instances when the value of the state (municipal) property indicated in the contract totaled more than R1 million at the moment it was leased—by converting the leasehold enterprise into an open-type joint-stock company.

The founders of such a company are the relevant property management committee and the individuals and corporate entities with the right to own property belonging to this enterprise who in this instance have a priority entitlement to purchase shares belonging to the state on the basis of an exclusive-access [zakrytyy] subscription. Each share issued through such a subscription is sold at a price equal to the nominal value of one share in the joint-stock company multiplied by two. When paying for the shares the participants in the subscription are obliged to use privatization checks to pay at least 50 percent of their payment by 1 July 1994 and have the right to submit privatization checks for up to 100 percent of their payment.

5.14.4. Citizens who are members of the labor collective of subsidiary components of enterprises which have been created by the labor collective of state (municipal) enterprises engaged in trade, public catering, and everyday services on the basis of the leasing of property belonging to these enterprises, have the right to purchase a proportion of the leased property equal to the proportion of total production (sale) of goods, works, and services attributable to the said component with a discount of 30 percent on the value of the said property as stipulated by the leasing agreement, on condition that they have formed a partnership or joint-stock company; this does not require the consent of the labor collective of the entire leasehold enterprise. The authorized capital of such a partnership (joint-stock company) is formed from its share of the capital of the leasehold property. The said partnership is the legal successor of the leaseholder in respect of the property allocated to it in the context of its share of the final balance.

5.14.5. The purchase of state or municipal property under leasing contracts which were concluded after the entry into force of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" or which did not include a right-to-buy clause is effected by converting the leasehold enterprise into an open-type joint-stock company (partnership) by decision of a meeting of the founders of the joint-stock company as defined by Point 5.14.3 of the Program. In this case shares in state (municipal) ownership are sold by check auction, auction, or tender and are purchasable by the leaseholders on the basis applicable to everybody.

5.14.6. A partnership or joint-stock company which was formed on the basis of the leasing of state property in the

said enterprise (subsidiary component) and which has purchased this property has an exclusive right to take into ownership (or to lease for a period of at least 15 years, depending on their desire) of the buildings, installations, and nonresidential premises which they had leased or of which they had de facto possession and which they utilized in the process of their authorized activity at a price set by the Russian Goskomimushchestvo.

5.14.7. The features governing the privatization of leased state and municipal property are regulated by a statute approved by the Russian Goskomimushchestvo.

#### 5.15. Protection of the Interests of Workers in Enterprises Undergoing Privatization

5.15.1. With a view to protecting the interests of workers in enterprises undergoing privatization, from the moment that a labor collective adopts a decision to submit an application for the privatization of a state (municipal) enterprise (subsidiary component) or from the moment that an application is submitted by an individual or corporate entity until the moment that the purchaser acquires ownership rights or until the moment that more than 75 percent of the shares in the enterprise undergoing privatization are sold, it is prohibited—without the consent of the appropriate property management committee and without considering the view of the appropriate ministry or department—to:

- reorganize, liquidate, or change the structure of the enterprise;
- amend or terminate previously concluded contracts for the leasing of nonresidential premises, buildings, and structures occupied by enterprises undergoing privatization and also contracts for the leasing of property to gold-prospecting artels;
- amend the enterprise table of organization, reduce the size of the work force without a decision from the labor collective of the enterprise (subsidiary component) or a body so empowered by it, or discharge or reassign enterprise (subsidiary component) workers and management officials who are members of the privatization working commissions, with the exception of instances when people are discharged of their own volition.

5.15.2. When enterprises are converted into open-type joint-stock companies in accordance with the Russian Federation president's Edict No. 721 of 1 July 1992, the date of the enterprise leader's order or labor collective general meeting's decision to form a working commission for the privatization of the said enterprise is deemed to be the date of adoption of the privatization decision by the labor collective.

5.15.3. From the moment that a labor collective adopts a decision to submit an application for privatization until more than 75 percent of the shares in the enterprise undergoing privatization have been sold it is prohibited to sell property, including immovable property, or to transfer it from the books of the enterprise undergoing

privatization without the consent of the appropriate property management committee.

Stockholding workers in an enterprise undergoing privatization are exempt from taxes when selling shares belonging to them.

#### **5.16. Additional Concessions When Privatizing State (Municipal) Enterprises**

The following additional concessions are prescribed when privatizing state (municipal) enterprises:

—a partnership formed solely by the workers of an enterprise where more than 50 percent of the total work force are invalids at the moment that the labor collective adopts a decision to submit a privatization application—provided at least half the membership of the partnership consists of working invalids—has a priority right to purchase the said enterprise, in accordance with a statute approved by the Russian Goskomimushchestvo, for its residual value with up to 80 percent of the cost being payable by privatization check (until 1 July 1994);

if less than 50 percent but more than 10 percent of the total work force are invalids, the conditions governing the sale of the enterprise must include a commitment by the purchaser to retain the number of jobs for invalids prescribed by the privatization plan and provide them with special working conditions;

—a partnership formed by at least two-thirds of the total work force of a state (municipal) folk arts and crafts enterprise has a priority right to purchase the enterprise for its residual value with up to 80 percent of the cost being payable by privatization check (until 1 July 1994);

irrespective of the chosen option for granting concessions to labor collective members when folk arts and crafts enterprises are converted into open-type joint-stock enterprises, leading artists and craftsmen are granted the right to purchase at nominal cost shares equivalent to 5 percent of the authorized capital exclusively for privatization checks, over and above the concessions prescribed for the labor collective;

during the privatization of enterprises located in population centers with no more than 10,000 inhabitants, or in restricted administrative-territorial formations, with the labor collective's consent all inhabitants can participate in an exclusive-access subscription for the shares in the enterprise being privatized which are eligible for sale to the labor collective, provided the number of workers at the enterprise undergoing privatization totals more than half the number of work-capable inhabitants of the said population center; when everyday service enterprises in rural areas are being privatized the labor collective is granted a preferential right to purchase the enterprise provided the proposed tendering conditions are observed by the participants.

5.17. When calculating concessions to labor collective members during a privatization process involving the

conversion of a state (municipal) enterprise into an open-type joint-stock company on the basis of the minimum wage level, this minimum wage level is defined as the legislatively-prescribed level as of 1 June 1992 or—in cases of privatization by other methods—the level as of the moment of the adoption of the Program, unless otherwise prescribed by privatization legislation. The size of any deposit or penalty is to be determined on the basis of the minimum wage prescribed for the date in question.

#### **5.18. The Reorganization and Demosopolization of Enterprises on Privatization**

5.18.1. It is not permitted to create joint-stock companies (including holding companies) on the basis of concerns, unions, associations, and other groupings of enterprises whose participants include state and (or) municipal enterprises, with the exception of instances when their form of legal organization is being brought into line with Articles 9-12 of the Russian Federation Law "On Enterprises and Entrepreneurial Activity."

5.18.2. The creation of holding companies when state and municipal enterprises are being converted into joint-stock companies is effected in accordance with the Interim Statute on Holding Companies Created During the Conversion of State Enterprises Into Joint-Stock Companies, which was approved by the Russian Federation president's Edict No. 1392 of 16 November 1992 "On Measures To Implement Industrial Policy During the Privatization of State Enterprises."

It is not permitted for the authorized capital of joint-stock companies created with the participation of the state (including holding companies) to include more than 10 percent of the shares of any joint-stock company created under the procedure for the privatization of a state (municipal) enterprise. Holding companies can be formed only with the prior agreement of the relevant organs of power and administration of the Russian Federation components on whose territory the enterprises belonging to the holding companies are located.

5.18.3. It is not permitted to create enterprises or to make contributions in the form of property to the authorized capital of enterprises (of any form of legal organization) or associations of state (municipal) enterprises whose form of legal organization has not been brought into line with Articles 9-12 of the Russian Federation Law "On Enterprises and Entrepreneurial Activity." The legal successors of these associations in the shape of the founders and members (shareholders and stockholders) of the previously formed enterprises are the enterprises party to these associations (provided there is documentary confirmation that the latter's contributions were in the form of specified and other payments by these enterprises) or the appropriate property management committees (in all other instances).

5.18.4. It is not permitted for enterprises to be created, or contributions in the form of property to be made to the authorized capital of enterprises (of any form of legal



organization), by any organs of state power and administration or local self-government or state or municipal institutions, with the exception of property management committees and property funds.

5.18.5. The privatization of state and municipal enterprises through the sale of shares can be effected only after they have been converted into open-type joint-stock companies. On privatization enterprises created as a result of the conversion of state (municipal) enterprises into other forms of legal organization must be converted into open-type joint-stock companies.

The rights of the state as a participant (shareholder or stockholder) in these enterprises is exercised by the appropriate property management committees or property funds. The latter are obliged to ensure that these enterprises are duly converted and also to effect the privatization of the shares in their capital which are in state (municipal) ownership in accordance with current privatization legislation.

5.18.6. When purchasing property, purchasing shares (making share payments), or purchasing stock in enterprises undergoing privatization (joint-stock companies, partnerships) for money:

- in the event of a deal for a sum exceeding 500,000 times the legislatively prescribed minimum wage, corporate entities (resident and nonresident) submit information (an official memorandum) on the source of the money and the legality of its provenance in accordance with the procedure approved jointly by the Federal Counterintelligence Service and the Russian Goskomimushchestvo;

- in the event of a deal for a sum exceeding 5,000 times the legislatively prescribed minimum wage, individuals submit a memorandum on their income in line with a procedure to be approved jointly by the Russian Federation Counterintelligence Service, the Russian Goskomimushchestvo, and the Russian Federation State Tax Service.

5.18.7. Decisions on removing subsidiary components from enterprises in the process of their privatization are adopted by the appropriate property management committees by agreement with antimonopoly agencies and sector ministries and departments on the basis of decisions by the labor collectives of the enterprises (structural subsidiary components); decisions on removing such components from associations of enterprises when their form of legal organization in being brought into line with current legislation are adopted on the basis of decisions by the labor collectives of the enterprises taking account of the opinion of antimonopoly agencies and ministries and departments (with the exception of foreign trade associations).

A decision on removing structural subcomponents from enterprises must not violate the unity of a manufacturing complex.

5.18.8. Monopoly enterprises are to be reorganized in accordance with current legislation following or during the process of privatization.

When privatizing enterprises which are acknowledged under the prescribed procedure as having a dominant position on the Russian (federal) market, the Russian Goskomimushchestvo and property management committees endowed with the powers of its territorial agencies are entitled—following a submission by the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures or its territorial administrations (hereinafter referred to as antimonopoly agencies)—to adopt decisions:

- on including in the charter of a newly created joint-stock company requirements for mandatory prior agreement with antimonopoly agencies for deals in which the said company would acquire stock, make share payments, or buy shares in the authorized capital of other economic players selling analogous or substitutable goods (works, services) on the market;

- on including in a privatization plan demands for the mandatory prior conclusion of an agreement (contract) with the antimonopoly agency stipulating commitments by the enterprise to avoid monopoly activity and dishonest competition and penalties for noncompliance.

#### 5.19. The Disposal of Facilities in State Ownership Abroad

5.19.1 The privatization and disposal of state property abroad is effected under the procedure prescribed by Russian Federation laws, Russian Federation presidential edicts, or Russian Federation Government decrees.

5.19.2. The privatization (sale) of facilities in Russian Federation state ownership located on the territory of independent states which were formerly republics of the USSR is effected after questions relating to ownership rights are settled on the basis of intergovernmental agreements.

#### 6. Sector Features of the Privatization of State (Municipal) Enterprises

6.1 The privatization and conversion into joint-stock companies of state enterprises, production associations, and science-and-production associations in the electricity and nuclear power complexes; the gas, coal, oil, and oil refining industry and petroleum product support services; the defense complex; the extraction and processing of precious metals and precious stones; the sociocultural, municipal, and everyday service facilities of enterprises undergoing privatization; railroad transport; and the facilities of the "Rossiyskiy Nikel" Russian joint-stock company are governed by current Russian Federation presidential edicts and directives.

6.2. The creation of new integrated Russia-wide structures of a monopoly nature (holding companies and enterprises controlling the shares of joint-stock companies in the process of being created) is permitted in the fuel and energy and nuclear complexes exclusively in the

instances stipulated by Russian Federation presidential edicts with the agreement of the organs of state power and administration of the components of the Russian Federation and the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures.

6.3. With a view to creating a competitive market and protecting the interests of consumers, the Russian Federation Government is to ensure within six months of the adoption of this Program the creation of independent joint-stock oil companies carrying out the extraction and refining of oil and also the marketing of oil and petroleum products through the consolidation of the holdings of stock controlled by the "Rosneft" state enterprises and their subsequent sale on the capital market.

Workers in Russian Federation Ministry of Fuel and Power uniformed service units (engaged in the prevention and elimination of oil and gas leaks [proyavleniye] and gushers) and in mine rescue service units ensuring safe mining operations in mining and metallurgy enterprises and the gold and diamond mining industry are to be granted the right to participate in acquiring shares in the enterprises where they operate on concessionary terms within the framework of the overall concessions granted to labor collective members.

6.4. The privatization of enterprises engaged in the primary processing of agricultural produce, fish, and marine products and enterprises providing production and technical services and material and technical backup for the agro-industrial complex is effected in accordance with the Russian Federation president's Edict NO. 1767 of 27 October 1993 "On the Regulation of Land Arrangements and the Development of Agrarian Reform in Russia" and the present Program.

Here the issuing of shares in the said enterprises is carried out irrespective of the number of workers or value of the fixed capital, with labor collective members being granted concessions in line with options 1 and 3. Within three months of the adoption of the privatization decision all other shares are offered at closed check auctions to the agricultural and fish producers and suppliers or consumers of services who are recognized as purchasers in accordance with Article 9 of the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" and also to the rural population of the given enterprises' raw material zone in accordance with a statute on specialized closed check auctions to be approved by the Russian Goskormimushchestvo.

Unplaced shares in agro-industrial complex enterprises are sold at specialized check auctions without restrictions as to the participants.

When enterprises producing tobacco products are converted into open-type joint-stock companies, a decision on issuing a "golden share" is made.

6.5. The privatization and sale of released military property (with the exception of arms and ammunition) is effected by

the Russian Federation Ministry of Defense in accordance with the procedure laid down by Russian Federation presidential Edicts No. 1518 of 30 November 1992 "On the Procedure for Reorganizing and Utilizing Released Military Property" and No. 1659 of 28 December 1992 "On Measures for the Social Protection of Servicemen, Former Servicemen, and Members of Their Families.

6.6. The privatization of publishing houses, printing enterprises, and wholesale book trading enterprises under the Russian Federation Committee for the Press is effected in accordance with a statute to be approved by the Russian Federation Government.

When wholesale book trading enterprises are converted into open-type joint-stock companies a "golden share" is issued for a three-year period. When publishing houses are converted into a open-type joint-stock companies, the editorial office personnel of the newspapers and magazines which were formerly part of these publishing houses, including the creative personnel of newspapers and magazines, are granted the right to participate in an exclusive-access subscription for shares.

6.7. The privatization of facilities in the scientific and technical fields is effected in accordance with a statute to be approved by the Russian Federation Government.

6.8. The privatization of facilities and enterprises belonging to the "Communications" sector (with the exception of "Rospechat" network retail facilities and enterprises) is to be effected in accordance with Russian Federation Government decrees.

6.9. The privatization of sanatorium and resort facilities and enterprises in federal ownership is effected in accordance with Russian Federation Government decrees.

When wholesale trading enterprises and sanatorium and resort facilities and enterprises in federal ownership are being converted into open-type joint-stock companies concessions are only granted to labor collective members in line with option 1 laid down by the present Program.

6.10. The privatization of physical culture and sports facilities is effected in accordance with Russian Federation Government decrees.

6.11. When timber procurement facilities are being privatized through the sale of shares in open-type joint-stock companies and structural subsidiary components engaged in timber industry activity are removed from timber enterprises, all the personnel of the former integrated timber enterprises are permitted to participate in an exclusive-access subscription for shares. When shares in retail trading and public catering enterprises providing services for Federal Forestry Service enterprises and organizations are being sold at check auctions, the range of purchasers is to be restricted to lumbering settlements.

The above procedure extends to all structural subsidiary components removed from Russian Federal Forestry

Service integrated timber enterprises engaged in timber industry activity (dressing of timber from major fellings and processing).

6.12. Motor vehicles and water transport system ships belonging to organizations, establishments, and enterprises (including those undergoing privatization) are sold at auction. A special privatization scheme involved mixed payments is applied here: 50 percent in checks and 50 percent in money until 1 July 1994, and money alone after 1 July 1994, with:

- 30 percent of the money revenue going to the organizations, establishments, and enterprises from which the said property has been removed;

- 70 percent of the money revenue being shared equally between the property management committee and the property fund. These funds going to these privatization bodies are channeled into financing the privatization process.

6.13. The privatization of cultural facilities (including moviemaking facilities and enterprises) in federal ownership is effected in accordance with a procedure to be approved by the Russian Federation Government.

During the privatization of cultural facilities (including moviemaking facilities and enterprise) in federal ownership through the sale of shares in open-type joint-stock companies, a "golden share" is issued and retained in state ownership for a period of up to three years to prevent a change of use of such facilities.

6.14. If the authorized capital of an enterprise undergoing privatization excludes social or everyday service facilities or housing facilities and if their transfer to municipal ownership has been stipulated, the appropriate organs of local self-government must accept them onto their books within no more than six months of the approval of the privatization plan and conclude contracts with the enterprises for the maintenance of these facilities, if necessary maintaining with the enterprise undergoing privatization which formerly had these facilities on its books a contractual relationship stipulating the enterprise's commitments in terms of the maintenance of facilities in the housing, social, and cultural fields.

6.15. When facilities and enterprises producing babyfood products are being privatized their sale by auction is precluded; and when they are converted into open-type joint-stock companies a decision to issue a "golden share" is made.

6.16. Intradepartmental trade and public catering facilities providing services for Russian Federal Forestry Service establishments, enterprises, and organizations are privatized in accordance with a special statute to be approved by the Russian Goskomimushchestvo taking the Russian Federal Forestry Service's proposals into account.

6.17. When state (municipal) enterprises are privatized the new owner is the legal successor to all rights and obligations in terms of ensuring fire safety.

The fire safety agreement must be renegotiated within three months of the registration of the enterprise.

6.18. The privatization of the foreign trade associations of the Russian Federation Ministry of Foreign Economic Relations and other Russian Federation ministries and departments is effected in accordance with a statute to be approved by the Russian Federation Government following a submission from the Russian Goskomimushchestvo and the Russian Ministry of Foreign Economic Relations.

6.19. The privatization of civil defense facilities, with the exception of those indicated in Section 1.1, is effected in accordance with a statute to be approved by the Russian Federation Government.

6.20. When experimental plants within the Russian Federation Committee for Standards, Metrology, and Certification system are converted into open-type joint-stock companies a decision to issue a "golden share" is made.

6.21. Russian Federation Ministry of Education enterprises are transformed solely into open-type joint-stock companies irrespective of the value of their fixed capital. When the said enterprises are converted into joint-stock companies the Russian Goskomimushchestvo can adopt a decision to issue a "golden share" when their shares are issued.

A necessary condition for the conversion of this ministry's enterprises into open-type joint-stock companies is their mandatory retention of two-thirds of the specialized educational output they produce (in terms of product list and volume) at the moment the decision on privatization is adopted.

6.22. Motorized transport and highway enterprises and facilities which are mobilization facilities or which have constant mobilization tasks are privatized taking into account the opinion of the Russian State Committee for Affairs of Civil Defense, Emergency Situations, and Elimination of Natural Disasters.

6.23. All enterprises and research and design organizations under the jurisdiction of the Russian Federation Committee for Metallurgy are privatized taking into account the opinion of this committee and only by selling shares in open-type joint-stock companies irrespective of the size and value of their fixed capital.

6.24. The privatization of folk art enterprises is effected with the enterprise mandatorily retaining its specialism and taking into account the opinion of the Russian Federation State Committee on Industrial Policy.

6.25. When hotel complexes, hotels, motels, boarding houses, camp sites, and tourist facilities in federal or state (municipal) ownership are converted into joint-stock companies members of the labor collective are only granted concessions under Option 1 of the concessions prescribed by this Program.



6.26. A "golden share" is issued when medical industry facilities and enterprises, pharmaceutical bases (storehouses), and medical equipment bases, as well as enterprises and facilities in the scientific and technical sphere of the chemical complex which incorporate manufacturing facilities involving toxic substances graded in risk categories 1 and 2 are converted into joint-stock companies.

6.27. Decisions on the privatization of enterprises and facilities producing chemical agents and temporary incapacitators are adopted once the work to destroy these special means and decontaminate equipment is completed.

6.28. The privatization of passenger transport enterprises which ship freight as well as passengers is effected in accordance with decrees of the Russian Federation Government.

6.29. The conversion into open-type joint-stock companies and privatization of enterprises and facilities of the Russian Federal Geodesy and Cartography Service referred to in Section 2.2. of this Program is effected with the mandatory retention of the enterprise's specialism and taking into account the opinion of the Russian Federal Geodesy and Cartography Service.

6.30. Rural trade, public catering, and everyday service facilities and enterprises whose fixed capital has a book value as of 1 January 1992 of no more than R0.5 million are to be sold solely by tender and investment tender.

6.31. Geological enterprises' structural subsidiary components units and facilities not subject to privatization are excluded when the said enterprise is privatized. Shares in geological joint-stock companies assigned to federal ownership can be sold ahead of schedule by decision of the Russian Federation Government.

6.32. One of the following options for valuing property may be employed when facilities and enterprises processing the ore of precious metals and precious and semiprecious stones are proposed by proposal of the labor collective in accordance with the decree of the Russian Federation Government:

Option 1—without including precious and semiprecious stones and precious metals in the value of the purchased property. In that case the precious and semiprecious stones, as well as precious metals, remain in state ownership and are used by the enterprise in accordance with a contract concluded with the Russian Federation Committee for Precious Metals and Precious Stones.

Option 2—including precious and semiprecious stones and precious metals in the value of the purchased property at the prices in effect at the moment the privatization plan is ratified.

6.33. When state and municipal enterprises are privatized the procedure for taking into consideration the environmental factor and conditions for safe working at chemically hazardous facilities, those where there is a danger of explosion or fire, and toxically hazardous facilities,

including questions relating to the conducting of an environmental audit; for reflecting this in privatization plans and tendering terms; for setting requirements relating to the environmental rehabilitation [sanatsiya] of enterprises; for setting preferential costs for nature conservation property; and for creating environmental rehabilitation funds at enterprises is established by the Russian Goskomimushchestvo with consideration for proposals submitted by the Ministry of the Environment and Natural Resources of the Russian Federation and the appropriate sector ministries and departments.

The said ministry and the Russian Goskomimushchestvo are to approve a list for registering environmentally hazardous enterprises during the privatization process.

Privatization of enterprises facing shutdown on environmental grounds is effected in accordance with a statute to be ratified by the Russian Federation Government.

#### **7. Conditions for the Provision of Credit for Privatization**

Commercial banks of the Russian Federation and foreign banks can extend credit for privatization transactions in accordance with current legislation.

The Central Bank of the Russian Federation can only assign credit resources to fund the holding of check auctions.

Local privatization programs can make provision for the assigning of credit resources for this purpose using funds at the disposal of the relevant local organs of power.

The Government of the Russian Federation, on behalf of the Russian Federation, must ensure the receipt of preferential credit from international financial organizations (banks) to support the process of privatization in Russia.

#### **8. Use of Privatization Checks**

This Program implements a mechanism for privatization based on the use of privatization checks in accordance with the Russian Federation president's Edicts No. 914 of 14 August 1992, No. 1228 of 14 October 1992, No. 1229 of 14 October 1992, No. 1304 of 26 October 1992, No. 1391 of 16 November 1992, No. 1705 of 31 December 1992, No. 7 of 10 January 1993, No. 216 of 12 February 1993, and No. 2004 of 24 November 1993 during the period of validity of the privatization checks through 1 July 1994.

8.1. Citizens of Russia and other people entitled to receive privatization checks use 1992-issue privatization checks with a nominal value of R10,000 to acquire privatization facilities.

The issuing of privatization checks to people on long sea voyages and lengthy duty tours is extended.

8.2. Privatization checks are used in privatization for purchasers to pay for the following facilities:

- enterprises, their subsidiary components, property, shares in joint-stock companies, and a proportion of the authorized capital of enterprises in federal ownership and the state ownership of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, the cities of Moscow and St. Petersburg, and in municipal ownership;
- land plots in accordance with the procedure prescribed by the Russian Federation president's Edicts No. 631 of 14 June 1992 "On Ratifying the Procedure for the Sale of Land Plots During the Privatization of State and Municipal Enterprises and the Expansion of and Additional Construction at These Enterprises, As Well As Those [Land Plots] Given to Citizens and Their Associations for Entrepreneurial Activity" and No. 1228 of 14 October 1992 "On the Sale of Housing Stock, Land Plots, and Municipal Property for Privatization Checks";
- shares in check investment funds;
- shares in social security check investment funds;
- property under right-to-buy leasing contracts.

The size of the payments subject to payment in privatization checks is fixed by edicts of the Russian Federation president and this Program.

Mindful of the sector and regional features of privatization the size of the payments for privatization checks can be changed in accordance with edicts of the Russian Federation president.

8.3. The creation of other systems, in addition to the system of privatization checks, for the free transfer to the ownership of citizens of the Russian Federation of state and municipal property in the republics, krais, oblasts, the autonomous oblast, autonomous okrugs, the cities of Moscow and St. Petersburg, and in rayons and cities, apart from the transfer of stock from the FARP and in accordance with Option 1 for concessions during flotation in the privatization process envisaged by this Program, is not allowed.

8.4. Refusal to accept privatization checks as a means of payment during privatization is prohibited. No taxes are levied when property funds accept privatization checks as a means of payment during privatization. Intermediaries conducting check auctions in accordance with Russian Federation privatization legislation on the instructions of property funds are exempted from value-added tax on the expenditure involved in holding the check auctions, expenditure which they are refunded by property funds.

8.5. The state guarantees the owner of a privatization check the right to use the privatization check to acquire facilities being privatized in accordance with the legislation of the Russian Federation.

8.6. Privatization checks can circulate in cash and non-cash form. Depositories are being set up to issue, handle, and store shares in privatized enterprise and privatization checks in noncash form (in the form of an entry in

their accounts), and also to receive and process the instructions of privatization check owners and stockholders; a statute on these depositories is to be ratified by the Russian Goskomimushchestvo in conjunction with the Commission for Securities and Stock Exchanges under the president of the Russian Federation.

8.7. Operations to buy and sell privatization checks and acquire securities with them, including shares in check investment funds and shares in privatized enterprises, are not taxable.

The value of a privatization check issued to people entitled to receive them in accordance with current legislation is not included in citizens' total taxable income and is not liable to corporate income tax.

The income of corporate entities obtained from the difference between the value of check investment fund shares when they are first placed and the value of the fund's shares when they are sold at a higher price is not taxable. Check investment funds and investment institutions are exempt from property tax. The services of a depository and auditing firms offered to check investment funds and investment institutions are exempt from value added tax.

8.8. The Government of the Russian Federation and the supreme organs of executive power of components of the Federation fund the preparation and publication in every region of collected information on privatization and property fund bulletins providing that this collected information publishes mandatorily the schedules for the sale of facilities, including the holding of check auctions, enterprises' privatization plans, and lists of privatized enterprises, as well as methodological and normative documents pertaining to problems of privatization.

8.9. With a view to preventing abuse, it is prohibited to borrow and lend privatization checks, accept and hand over privatization checks as security, and carry out other operations using privatization checks for which Russian Federation privatization legislation no provision.

8.10. The issuing, holding, redemption, and destruction of privatization checks is funded by monies from the republic budget of the Russian Federation, and also by monies from privatization available to the corresponding property management committees and property funds.

All organizations, enterprises, and establishments which issue certificates of the deposition of privatization checks and which receive, hold, redeem, and destroy privatization checks are obliged to keep records and submit a report on the movement of privatization checks in accordance with the procedure prescribed by the Russian Goskomimushchestvo.

8.11. Around 10 percent of the total number of shares in a joint-stock company sold at a check auction are allowed to be sold at auction for rubles (provided that no less than 29 percent of the shares in the said joint-stock company are sold at the check auction), with the money from the sale directed to covering the cost of holding the

check auctions. In this process 30 percent of the receipts is directed into the funding by property management committees of services to hold and destroy privatization checks, while the rest of the receipts are directed to property funds to cover the cost of holding check auctions and redeem privatization checks.

In this case amendment of the second section of the privatization plan is not required.

## 9. Developing a Capital Market

9.1. Independent registrars [registratory], depositories, and accounting organizations are set up in order to ensure the process of the movement of capital (buying and selling of stocks), and also to keep registers of stockholders and the noncash movement of privatization checks and shares on the country's territory.

A statute on the register of stockholders is to be ratified by the Russian Goskomimushchestvo jointly with the Commission on Securities and Stock Exchanges under the president of the Russian Federation.

9.2. Responsibility for the accumulation and redemption of used checks is assigned to property funds (or, in the absence of property funds, to the appropriate property management committees), and for their destruction to property management committees.

9.3. Investment funds of all types do not have the right to exchange shares issued by them for shares in joint-stock companies set up in the process of privatization which are held by property funds.

9.4. Legal entities engaging in investment activity in accordance with the procedure prescribed for investment funds are obliged to bring their articles of association (uchreditelnyye dokumenty) into line with the legislation of the Russian Federation regulating the procedure for the creation and activity of investment funds.

Specialized investment privatization funds, which accumulate citizens' privatization checks, are entitled to have no more than 25 percent of the securities of a single issuer [eminent] in their assets, and also to acquire and have in their assets shares in other investment funds.

For the first two years following registration the investment activity of specialized privatization investment funds, which accumulate citizens' privatization checks, is exempt from:

- advance payments of profits tax;
- tax on dividends paid by enterprises on shares in the possession of specialized privatization investment funds accumulating citizens' privatization checks;
- tax paid on registering a security issue prospectus.

Specialized privatization investment funds accumulating citizens' privatization checks are exempt from paying value-added tax on transactions to acquire shares in privatized enterprises.

9.5. With a view to regulating the development of the securities market it shall be established that, prior to Russian Federation legislation introducing norms regulating the activity of investment banks:

—banks cannot buy a stake (holding, shares) in privatized enterprises and specialized privatization investment funds accumulating citizens' privatization checks with either money or with privatization checks which they have acquired, nor can they own more than 10 percent of the shares in any joint-stock company, nor can they hold more than 5 percent of the shares in joint-stock companies among their assets;

—banks can accept privatization checks and securities in privatized enterprises and investment funds from citizens and legal entities for custody.

9.6. In the event of a privatization plan not providing dates for the sale of a block of shares in an enterprise under the jurisdiction of a corresponding property fund, this block of shares must be sold before the end of the third month from the moment that it is handed over to the fund.

9.7. In order for servicemen, civilian personnel of the Russian Federation Armed Forces and other ministries and departments with troops formations, people discharged from military service, and members of the families of the said categories of citizens to use privatization checks, organs of state administration are to do their utmost to assist current and newly created check investment funds for the social protection of servicemen.

To this end a fund with at least 75 percent of citizens of the aforementioned categories among its stockholders can be a check investment fund for the social protection of servicemen.

9.8. The chairman of the appropriate property fund bears personal responsibility for compliance with the timeframes for the sale of enterprise shares laid down in the privatization plan (the plan or schedule for holding check auctions). In the event of property funds failing to comply with the timeframe for the sale of shares, on the expiry of 15 days from the date laid down in the privatization plan property management committees are obliged to start selling shares transferred to the fund when privatization plans have been unfulfilled.

9.9. Property management committees are responsible for setting up in every region the requisite network of independent registrars and depositories sufficient to meet the needs of joint-stock companies as regards keeping registers of stockholders and investment funds.

## 9.10. Protection of stockholders' rights.

9.10.1. With a view to protecting the rights of open-type joint-stock companies' stockholders it is established that:

—all ordinary shares in open-type joint-stock companies irrespective of their time of issue are equal in terms of the rights granted to stockholders and the dividends paid thereon;



—the annual meeting of an open-type joint-stock company's stockholders is held no later than 120 calendar days after the end of the fiscal year. The joint-stock company's balance sheet, the statement of income (annual report), and the auditing commission report based on the results of its yearly inspection, submitted to the annual meeting of stockholders, are approved by the joint-stock company's board of directors no later than 60 calendar days after the end of the fiscal year. In the event of the board of directors not approving the joint-stock company's balance sheet it is submitted in accordance with established procedure to the tax inspectorate, which schedules an audit of the joint-stock company's funds.

9.10.2. It is established that the following decisions are only to be adopted at a meeting of stockholders and with the agreement of the owners of three-fourths of the ordinary shares in the open-type joint-stock company, present in person or by proxy:

—on amendments and addenda to the joint-stock company's charter;

—on changing the size of the joint-stock company's authorized capital;

—barring the redemption of shares bought by the company, on the pledging, leasing, sale, exchange, and other alienation of any property defined in the joint-stock company's articles of association, and also if the size of the transaction or value of the property subject to the transaction exceeds 25 percent of the authorized capital, or if the joint-stock company's auditing commission does not decide to approve the deal;

—on participation in holding companies, associations of enterprises, and financial-industrial groups;

—on the reorganization and liquidation of a joint-stock company. The provisions of this paragraph extend to open-type joint-stock companies set up in the process of privatizing state (municipal) enterprises in the event that no more than 25 percent of the shares are in state (municipal) ownership at the time of the stockholders' general meeting.

9.10.3. The setting of any restrictions or conditions on stockholders selling their shares in open-type joint-stock companies is prohibited.

9.10.4. An open-type joint-stock company's board of directors with no less than seven members—or no less than nine members for joint-stock companies with more than 10,000 stockholders—is elected at a stockholders' meeting. In the elections for the board of directors each ordinary share has the same number of votes as the number of members of the board. In the election stockholders can cast all or part of the votes attaching to their ordinary shares for one or several candidates for board membership. The candidates who gain the largest number of votes are deemed to have been elected to the board of directors.

Each member of the board of directors has one vote at the board meeting. Stockholders who are employees of the joint-stock company cannot comprise more than one-third of the members of that company's board.

9.10.5. Shares which are part of the assets of the joint-stock company which issued them do not come into play at the voting at the general meeting of the joint-stock company's stockholders. The quorum at the meeting is determined without these shares being taken into consideration.

9.10.6. Open-type joint-stock companies cannot be converted into closed-type joint-stock companies or limited-liability partnerships.

9.10.7. A joint-stock company must send out the following to stockholders by registered post no later than 30 calendar days prior to the date of the stockholders' meeting:

—written notification of the time of the meeting and its venue;

—an agenda for the stockholders' meeting ratified by the board of directors;

—information on the points on the stockholders' meeting agenda, including a ballot paper for the elections to the board of directors and a ballot paper for the elections to the auditing commission.

The procedure for preparing for and holding the general meeting of joint-stock company stockholders is ratified by the Russian Federation president's Commission for Securities and Stock Exchanges.

## 10. Utilization of Foreign Investment

10.1. Foreign investors can take part in auctions (including check auctions), tenders, and investment tenders, as well as buying privatization checks for use as a means of payment in the privatization process provided that mandatory subsequent notification is given to the Russian Finance Ministry. No additional permission from Russian Federation state committees, ministries, and departments, organs of state administration of the republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, or the cities of Moscow and St. Petersburg is required for foreign corporate entities or individuals to utilize privatization checks in the privatization process.

When deals are being completed with foreign investors the sole vendors of state and municipal property will be the corresponding property funds (property management committees).

If foreign investors are the only participants in an auction, tender, or investment tender, enterprises may be sold to them. In this case the relevant property fund makes a special valuation of the enterprise's property using a procedure ratified by the Russian Goskomimushchestvo in conjunction with the Russian Finance Ministry.

Foreign investors will be allowed to participate in the privatization of facilities and enterprises in the sphere of trade, public catering, and everyday services to the population, as well as small (less than 200 registered workers or a book value of less than R1 million as of 1 January 1992) industrial, construction, or motor transport enterprises only with the permission of local organs of power or organs authorized by them.

Decisions to possibly permit foreign investors to take part in the privatization of facilities and enterprises in the defense industry (those where defense orders account for more than 30 percent of total output) or the oil and gas industry, enterprises extracting and processing strategic ores, precious and semiprecious stones, or radioactive and rare-earth elements, or the transport and communication enterprises indicated in Section 2.2 of this Program are made by the Russian Federation Government or the governments of republics within the Russian Federation (depending on the type of state ownership) at the same time as decisions to permit the privatization of the aforesaid facilities and enterprises. And, following the holding of a check (money) auction (tender) the organizers send the Russian Federation Government and the Russian Federation Federal Counterintelligence Service information on the successful foreign bidders. The Russian Federation Federal Counterintelligence Service is entitled to submit to the Russian Federation Government within one month a reasoned conclusion on the need to prohibit the acquisition of shares, stakes, holdings, or property by the aforesaid foreign investors. The Russian Federation Government adopts a corresponding decree on this basis.

The utilization of foreign investment in the privatization of state and municipal enterprises located within a closed territorial formation is not permitted, save in cases stipulated by Russian Federation Government decrees.

There are no other restrictions on foreign investors' participation in privatization.

10.2. On completion of a deal transactions with foreign investors (resident and nonresident) are conducted in the currency of the Russian Federation or in privatization checks.

10.3. Foreign individuals who are not registered as entrepreneurs in their country of origin are recognized as foreign investors in respect of their participation in privatization.

#### **11. Procedure for the Relationship of State Privatization Organs Among Themselves, With Other Organs of State Administration, and With Budgets at All Levels**

11.1. Property funds acting in accordance with the Statute on the Russian Federal Property Fund (property fund) ratified by Russian Federation Presidential Edict No. 2173 of 17 December 1993 are the vendors of state (municipal) enterprises and other state-owned facilities, unless specified to the contrary by existing privatization legislation.

In areas where no property funds exist, their functions are carried out by the relevant property management committees.

Property funds in the republics, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg (as well as other major cities by agreement with the Russian Federal Property Fund) are entitled to privatize federal property (apart from shares in enterprises with an authorized capital of over R500 million).

11.2. From the time a labor collective or corresponding property management committee decides to privatize an enterprise, the powers delegated to a ministry, department, or organ of local administration lapse, with the exception of the right to conclude contracts with the leaders of the privatized enterprise.

11.3. Russian Federation ministries and departments elaborate and coordinate with the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures and submit to the Russian Goskomimushchestvo recommendations relating to the features of the privatization of enterprises in their sector, unless specified to the contrary by Section 6 of this Program.

The Russian Goskomimushchestvo elaborates provisions on the procedure for privatizing facilities and enterprises in the various sectors stipulated in Section 6 of this Program, taking account of the views of the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures.

11.4. In order to exercise ownership powers at stockholders' meetings at joint-stock companies where blocks of shares are held by the state or where a decision has been made to issue a "golden share," property management committees at the relevant level can invite representatives of the relevant Russian Federation ministries and departments to represent those ministries and departments.

Management representatives and employees of joint-stock companies cannot represent the state at stockholders' meetings or on the board of directors.

11.5. Privatization organs in Russian Federation components (property management committees and property funds) effect the privatization of federally owned facilities—with the exception of facilities where privatization is restricted in accordance with Paragraphs 2.1, 2.2, and 2.3 of this Program—without any need for additional coordination with any organs of state power or Russian Federation departments.

11.6. Local property management committees and property funds collect and report figures on privatization and submit to statistical organs reports of data on its progress in the form laid down by the Russian Federation State Committee for Statistics and the Russian Goskomimushchestvo; this work is funded by the Russian Federation State Committee for Statistics. Enterprises and organizations are responsible for the accuracy of the figures.

## 12. Requirements of Local Privatization Programs

12.1. Local privatization programs are elaborated by the property management committees of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, cities (apart from cities under rayon jurisdiction), and rayons (apart from rayons in cities) and are adopted by the relevant local organs of state power which have the right to set subordinate organs of state power and administration (local government organs) privatization tasks in accordance with the present Program.

12.2. Local privatization programs must be elaborated in accordance with the requirements of the present Program and ratified no later than two months following its publication. After this, local programs will be published in the press organs of the relevant organs of state power and presented to the Russian Goskomimushchestvo.

12.3. Local privatization programs must:

- not contravene the present Program, not introduce additional restrictions on the privatization of facilities and enterprises;
- ensure that the demands and tasks established by the present Program are fully carried out.

Local privatization programs must include:

- a list of enterprises subject to privatization;
- proposals on the privatization of enterprises effected only with the permission of the Russian Federation Government and the Russian Goskomimushchestvo;
- a list of mothballed facilities and facilities in state (municipal) ownership whose construction is incomplete, for which the normative deadline for construction has run out, and which are eligible for privatization;
- targets for local organs of power and administration concerning the privatization of facilities in municipal ownership, subdivided into sectors in accordance with the specified indicators determined by the present Program; these targets include the mandatory targets set by the State Privatization Program for 1992 if they have not been achieved earlier;
- the schedule for conducting check auctions for all enterprises converted into open-type joint-stock companies;
- a prediction of receipts, including in the form of privatization checks.

12.4. The forms and deadlines for presenting statistics for the fulfillment of the targets set by the present Program are determined by the Russian Goskomimushchestvo by agreement with the Russian Federation State Committee for Statistics.

12.5. Personal responsibility for carrying out local privatization programs is placed on heads of administration and chairmen of property management committees and property funds at all levels.

12.6. The Russian Goskomimushchestvo is made responsible for supervision of the implementation of local privatization programs.

## 13. Measures To Stimulate the Implementation of the Russian Federation State Privatization Program

With the aim of intensifying the interest of regions, enterprises, and property management committees and funds carrying out privatization in implementing the present Program, it is to be laid down that:

—enterprises being privatized may be granted state aid and concessions on a competition basis toward for the implementation of relevant programs. Enterprises which have displayed active assistance to property funds in the full implementation, within the deadline, of privatization plans, with all other conditions being equal, have definite priority in obtaining state aid and concessions;

—the granting of financial resources to regions takes their implementation of the State Privatization Program into account. Regions which have not carried out the requirements of Russian Federation legislation on privatization, including those which do not accept privatization checks, will not be granted financial aid;

—components of the Russian Federation (in respect of facilities which belong to them) and relevant organs of local self-government (in respect of facilities in municipal ownership) which have adopted decisions to increase the proportion of shares (property) sold for privatization checks as compared with the minimum established by the present Program, have a priority right to receive financial aid and preferential credits from federal organs of state power in meeting commitments to the federal budget;

—out of the monies they receive from privatization, apart from monies received from the sale of released military property (which is under the operational control of the Russian Federation Armed Forces, the Russian Federation Federal Counterintelligence Service, the Russian Federation Ministry of Internal Affairs, and other Russian Federation ministries and departments), the Russian Goskomimushchestvo and the Russian Federal Property Fund have the right to award bonuses to the tune of at least 10 percent of all the monies remaining at their disposal to workers of the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures and its territorial administrations, sector ministries, committees, and departments, and local property committees and funds who have achieved the best results in implementing the present Program; such bonuses are paid without restriction on the number of multiples of monthly salary [used as the basis for computing bonuses] on the basis of proposals by the aforementioned organs of state administration;

—foreign technical aid and foreign credits are granted as a priority to enterprises which conduct their activity in the sphere of production and where the proportion of state property in their authorized capital is less than 25 percent (apart from those indicated in Section 2.1 and Point 2.2.6) unless otherwise stipulated by international (intergovernmental) agreements.



Monies and material assets granted by way of foreign technical aid and foreign credits channeled into supporting privatization in the Russian Federation are exempt from all types of taxation as well as from customs taxes and duties.

#### 14. Features of Privatization in the Regions

14.1. Property management committees and property funds of components of the Russian Federation will, by agreement with the Russian Goskomimushchestvo, issue normative acts, including on the privatization of facilities in federal ownership, in the event of the absence of model or standard normative acts elaborated by the Russian Goskomimushchestvo, on condition that the privatization procedure and deadline are observed.

The aforementioned normative acts cannot contravene Russian Federation legislation on privatization, and this includes changing or amplifying methods of privatization. They cannot establish the procedure for the coordination, authorization, and ratification of documents—or other procedures not envisaged by Russian Federation legislation and edicts of the Russian Federation president—for the passing of documents concerning privatization by organs of state power and administration, a list of which is provided for by Russian Federation legislation on privatization and is considered to be comprehensive. Following the issue of the relevant documents adopted by federal organs of state power, the action of normative acts adopted by organs of state power of components of the Russian Federation is discontinued.

14.2. Organs of state power and administration of republics within the Russian Federation, krays, oblasts, the autonomous oblast, autonomous okrugs, the cities of Moscow and St. Petersburg, and also organs of local self-government have the right to adopt decisions in respect of enterprises and facilities named in Section 2.4. of the present Program:

- on retaining a controlling interest in state (municipal) ownership for a period of up to three years by agreement with the Russian Goskomimushchestvo;
- on issuing a "golden share" during the issuing of shares for a period of up to three years without coordination with the Russian Goskomimushchestvo; on determining the method of privatizing enterprises irrespective of the number of workers and the value of the capital assets.

14.3. During the elaboration of privatization programs of republics within the Russian Federation, krays, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg, Russian Federation organs of state power have the right to elaborate compulsory requirements for the privatization programs of the aforesaid Russian Federation components.

14.4. With the aim of taking regional specific features of privatization more fully into account, by decision of the relevant property management committees, with the agreement of the Russian Goskomimushchestvo, the following special additional methods of privatization may be used for any facilities in federal ownership, the ownership of components of the Russian Federation, and municipal ownership (apart from those mentioned in Sections 2.1 and 6 of the present Program):

Name of Region	Methods of Privatization
Zones of socioeconomic disaster according to the list ratified by the Russian Federation Government	The sale of all the property complex of an enterprise according to an investment tender (with a commitment by the purchaser to maintain employment for the workers) without granting concessions to labor collectives
Regions of the Far North	The procedure set forth in Appendix No 2 to the Program
Agricultural Regions	The sale of facilities in trade, public catering and domestic services by commercial tender retaining the enterprises' specialization for a period of up to 5 years and granting an annual subsidy to the privatized enterprise
Regions which have achieved the highest indicators in conducting privatization (according to the list ratified by the Russian Federation Government)	All decisions on privatization which come under Point 2.2 (except for Points 2.2.4, 2.2.5, 2.2.6, 2.2.12, 2.2.15 and 2.2.21 of the Program) are adopted directly by the property management committees of the republics within the Russian Federation, krays, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg without obtaining authorization from the Russian Federation Government.

14.5. The privatization of sanatoriums, health resorts, and tourist excursion facilities in the region of Mineralnye Vody in the Caucasus is effected in accordance with an edict of the Russian Federation president.

#### 15. Information Backup for the Privatization Process

15.1. At regional level, property management committees and property funds are obliged to channel at least 10 percent of the revenue they receive from privatization into publicity and information work.

15.2. The carrying out of propaganda-publicity, information, and educational work is the responsibility of the

Russian Goskomimushchestvo, the Russian Federal Property Fund, and local property management committees and property funds.

The aforesaid organs, which carry out privatization, are given the following obligations to ensure the publication of:

- information about the essence of privatization, the role of privatization checks, the ways they can be used, check auctions, and investment funds in the newspapers;

- information about the course of privatization, including check auctions, the place and time they are held, and enterprises which take part in them, in the bulletin on privatization, "The Bulletin of the Russian Federal Property Fund," which is the joint publication of the Russian Federal Property Fund and the Russian Goskomimushchestvo and is published using these organizations' resources;

- schedules for holding check auctions, information about the role of privatization in the center and the localities, the use of privatization checks, the procedure for acquiring shares of privatized enterprises, investment funds, and the course of holding check auctions in special mass circulation brochures.

15.3. The Russian Goskomimushchestvo and the Russian Federal Property Fund, and property committees and funds in the localities are entrusted with ensuring, on television and radio:

- regular presentation in news programs of information about the course of sales for privatization checks and the most significant facilities submitted for sale;

- regular broadcasts containing information about imminent sales.

15.4. All mass media which receive subsidies from budgets at all levels are obliged to publish, free of charge, news reports about facilities at all levels of ownership which are being privatized, to the tune of up to 10 percent of the size of the grants given to them.

15.5. The Russian Goskomimushchestvo, together with the Russian Federal Property Fund and other interested organizations, is obliged to ensure the publication, free of charge, of announcements in "The Bulletin of the Russian Federal Property Fund" of auctions and investment tenders being held.

## 16. Social Protection of Workers in Organs Carrying Out Privatization

16.1. With the aim of raising the prestige of work in organs carrying out privatization and raising the interest of their workers in the high-quality performance of their duties:

- obligatory state personal insurance is to be established for them from the monies of budgets at all levels and revenue from privatization;

- they are to be provided with means of individual protection according to the list ratified by the leader of the privatization organ as agreed with the Russian Federation Ministry of Internal Affairs, acquired from the monies of organs carrying out the privatization, and to organize training for handling them.

16.2. It is to be laid down that:

- on the abolition of property management committees and property funds at all levels, workers keep an allowance worth one year's earnings which is paid out of the relevant budgets;

- in the event of the death of an employee in connection with the execution of official work, the family is paid a one-time subsidy worth double the annual earnings of the deceased from the monies of the relevant budget;

- if an employee sustains severe physical injury which rules out the possibility of further professional work, a one-time subsidy worth one year's earnings is paid out of the monies of the relevant budget, plus, for a 10-year period, the difference between the official salary and the pension;

- if an employee sustains less serious physical injuries, a one-time monetary allowance worth five months' average salary is paid from the monies of the relevant budget.

Damage caused to the property of an employee in connection with official work is fully compensated from the monies of the relevant budget, this sum subsequently being recovered from the culprits and paid into the relevant budget.

## 17. Privatization and Structural Policy

17.1. The procedure and conditions for granting preferential targeted state credits on a competitive basis extends to privatized enterprises involved in carrying out comprehensive federal programs:

- for supplementing circulating capital; for investment needs;

- for the implementation of programs for the conversion of the defense industry;

- for the protection of the environment;

- for other needs determined by the Russian Federation Government, including subsidizing imported purchases from centralized currency funds.

The procedure for conducting specialized competitions for obtaining preferential credits is determined by a statute to be ratified by the Russian Federation government.

17.2. No form of restriction for privatized enterprises is permitted in allocating budget appropriations from the Russian Federation republic budget for the financing of centralized capital investments and obtaining monies from statewide budget funds.

17.3. In the event of exposure of a case of discrimination by ministries and departments in respect of the involvement of privatized enterprises in carrying out comprehensive federal targeted programs, the granting of preferential targeted state credits, the allocation of budget targeted allocations, and the implementation of other

statewide measures, disciplinary and material proceedings are brought against leaders of ministries and departments in accordance with Russian Federation legislation, going as far as dismissal from their posts.

17.4. The main way in which shares are sold by joint-stock companies following a restricted subscription and specialized check auctions are investment tenders, the procedure for holding which is regulated by the Program and a statute to be ratified by the Russian Goskomimushchestvo.

17.5. The creation and registration of financial-industrial groups is carried out according to the procedure established by Edict No. 2096 of the Russian Federation president dated 5 December 1993 "On the Creation of Financial-Industrial Groups in the Russian Federation."

A financial-industrial group means a group of enterprises with interconnected capital incorporating specialized financial institutions for the purpose of solving common problems.

The activity of nonregistered financial-industrial groups is prohibited.

#### Appendix No. 2 to the Program

##### The Interrepublic Program for the Privatization of State and Municipal Enterprises in Areas of the Far North and Equivalent Localities

The Interrepublic Program for the Privatization of State and Municipal Enterprises in Areas of the Far North and Equivalent Localities elaborated in accordance with the Russian Federation Law "On the Privatization of State and Municipal Enterprises in the Russian Federation" and the Russian Federation Supreme Soviet Decree "On Putting into Effect the State Privatization Program for State and Municipal Enterprises in the Russian Federation for 1992" determines the objectives and establishes the particulars governing the granting of concessions and the implementation of privatization, as well as restrictions, proceeding from the possibility of privatizing facilities and enterprises located in the region in question.

The program is an inalienable part of the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation and supplements it by creating a system of measures taking into consideration the regional features involved in carrying out the privatization in the Far North and equivalent localities.

##### 1. The Provisions of the Program Extend to State and Municipal Enterprises Located on the Following Territories

- the Republic of Altay—Kosh-Agachskiy and Ulagan-skoy Rayons;
- the Republic of Buryatiya—the city of Severobaykalsk; Barguzinskiy, Bauntovski, Kurumkanski, Okinski, Muyski, and Severo-Baykalski Rayons;
- the Komi Republic;

—the Republic of Karelia—the city of Kostomuksha; Belomorskiy, Kemskiy, Loukhskiy, Kalevalskiy, Muezerskiy, and Segezhskiy Rayons;

—the Republic of Sakha (Yakutia);

—Krasnoyarsk Kray—Evenkiyskiy and Taymyrskiy (Dolgano-Nenetskiy) autonomous okrugs; the cities of Igarka, Lesosibirsk, Norilsk, and Yeniseysk; and Boguchanskiy, Yeniseyskiy, Kezhemskiy, Motygin-skiy, Severo-Yeniseyskiy, and Turukhanskiy Rayons;

—Maritime Kray—the city of Dalnegorsk; Dalnegor-skiy, Kavalerovskiy, Olginskiy, and Terneyskiy Rayons; the working settlement of Vostok; Bogus-lavetskiy, Vostretsovskiy, Dalne-Kutskiy, Izmay-likhinskiy, Melnichnyy, Roshchinskiy, and Tayezhn-enskiy rural soviets in Krasnoarmeskiy Rayon;

—Khabarovsk Kray—the cities of Amursk, Komsomolsk-na-Amure, Nikolayevsk-na-Amure, and Sovetskaya Gavan; Ayano-Mayskiy, Okhotskiy, Vaninskiy, Verkhnebureinskiy, Komsomolskiy, Niko-layevskiy, Polina Osipenko, Sovetsko-Gavanskiy, Sol-nechnyy, Tuguro-Chumikanskiy, and Ulchskiy Rayons; Amurskiy Rayon, including the working set-tlement of Elban; and Voznesenskiy, Paalinskiy, Achanskiy, Dzhuenkiy, and Alminskiy Rural Soviets;

—Chukotka Autonomous Okrug;

—Amur Oblast—the cities of Tynda and Zeya; Zeyskiy, Selezhdzhinskiy, and Tyndinskiy Rayons;

—Arkhangelsk Oblast, Irkutsk Oblast—the cities of Bratsk, Vodaybo, Ust-Ilimsk, and Ust-Kut; Vodaybin-skiy, Bratskiy, Kazachinsko-Lenskiy, Katangskiy, Kirenskiy, Mamsko-Chuyskiy, Nizhneilimskiy, Ust-Ilimskiy, and Ust-Kutskiy Rayons;

—Kamchatka Oblast;

—Magadan Oblast;

—Murmansk Oblast;

—Perm Oblast—Komi-Permyatskiy autonomous okrug; Gaynakiy, Kosinskiy, and Kochevskiy Rayons;

—Sakhalin Oblast;

—Tomsk Oblast—the cities of Kedrovyy, Kolpashevo, and Strezhevoy; Aleksandrovskiy, Bakcharskiy, Verkhneketskiy, Kargasokskiy, Kolpashevskiy, Krivosheinskiy, Molchanovskiy, Parabelskiy, Tegul-detakiy, and Chainskiy Rayons;

—Tyumen Oblast—Yamalo-Nenetskiy and Khanty-Mansiyskiy autonomous okrugs; Uvatskiy Rayon;

—Chita Oblast—Kalarskiy, Tungiro-Olekminskiy, and Tungokochenskiy Rayons;

—all the islands in the Arctic Ocean and its seas, as well as the islands in the Bering and Okhotsk Seas.



The requirements established by the present Program are binding on the organs of state power and administration of the Russian Federation, republics within the Russian Federation, krais, oblasts, autonomous okrugs, and the local self-government organs located in areas of the Far North and equivalent locations.

Questions of the privatization of facilities not determined by the present Program are regulated by provisions of the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation and local privatization programs.

## 2. Specific Features of the Objectives of Privatization

In parallel with the main objectives of privatization in the Russian Federation, as indicated in Section 1 of the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation, the following are additional objectives of privatization in regions of the Far North and equivalent localities:

- to attain a rational combination of the traditional economic complex of the northern peoples and industrial production;
- to assist the rational employment of the population and the social development of the regions;
- to create real conditions for ensuring the exercise of the right to own property by the population inhabiting regions of the Far North and equivalent localities, as well as by communal-economic collectives, enterprises, and individuals from the small peoples of the North.

## 3. Additional Limitations on Privatization

3.1. The privatization of facilities and enterprises in the sphere of culture, physical culture, and sports located in the Arctic Zone of the Far North, in places of residence and economic activity of small peoples of the North, and prospectors' settlements is prohibited.

3.2. In the process of privatizing enterprises, organizations, and their structural subsidiary components appearing on the books of enterprises working on the expeditionary/duty tour method in regions of the Far North and equivalent localities, including freight-carrying motor vehicle transport enterprises, as well as enterprises carrying freight on the expeditionary/duty tour method, the privatization decision is made directly by the Russian Goskomimushchestvo on the basis of conclusions by the Russian Federation State Committee for the Socioeconomic Development of the North and the appropriate sector ministry, department, or committee.

3.3. The participation of foreign investors in the privatization of facilities and enterprises in the trade network, public catering, and everyday services, as well as of small enterprises in industry, the construction industry, and motor vehicle transport (with a book value of up to R1 million as at 1 January 1992) is permitted only by decision

of organs of local self-government and—in places inhabited by small peoples of the North—and by agreement with regional associations of small peoples of the North.

Decisions permitting foreign investors to participate in the privatization of facilities in the fuel and energy complex or the extraction and processing of ores, precious and semiprecious stones, precious metals, and radioactive and rare-earth elements are made by the Russian Federation Government or the governments of the Republic of Altay, the Republic of Karelia, the Republic of Komi, the Republic of Buryatia, and the Republic of Sakha (Yakutia) (depending on the type of property) simultaneously with the adoption of decisions allowing the privatization of the aforementioned facilities and enterprises.

3.4. Decisions on the privatization of facilities and enterprises in the traditional economic complex of the peoples of the North are made in coordination with the regional associations of small peoples of the North and representatives of the collectives of small peoples of the North.

The term facilities and enterprises in the traditional economic complex of the peoples of the North means enterprises at which at least half of labor collective members come from small ethnic communities belonging to the indigenous population of the territory in question, which are located in places of residence and economic activity of small peoples of the North, and which use the byproducts of traditional occupations (reindeer-breeding, hunting, catching fish and marine animals, picking plants growing in the wild) as initial raw material for the production of their output, as well as production infrastructure facilities serving the aforementioned enterprises, including enterprises for the processing and storage of reindeer hides, antler velvet, and subproducts, or for the processing of fish, marine animals, and marine products, enterprises and workshops for the separation of reindeer pelts and the processing of and manufacture of articles from pelts, and enterprises for the manufacture of folk art and craft articles, the sewing of fur clothing and footwear, and the preparation of medicinal-biological compounds.

## 4. Enterprises Liable to Mandatory Privatization

The following are liable to mandatory privatization:

- enterprises working ore deposits with small reserves, including previously abandoned deposits and deposits considered substandard, with the exception of enterprises for the extraction of precious metals and precious stones;
- mothballed enterprises in all sectors of the national economy, with the exception of enterprises in the precious metals and precious stones industry, including property left over following the winding up of an enterprise.

### 5. Specific Features of the Choice of Privatization Method

The following are taken into account when determining the privatization method:

- the size of the enterprise (average numerical strength of the work force and the book value of fixed assets) and its socioeconomic importance for the resolution of tasks affecting Russia as a whole and the territory in question; —the specific sector features of the enterprise being privatized; the expediency of preserving the enterprise's specialization, the ecological situation in the zone of the enterprise's activity; the monopoly position of enterprises in the zone of their activity as regards the consumers of their goods and services and their suppliers of material resources;
- the need for investments, including foreign investments;
- the opinion of the labor collective of the enterprise being privatized;
- the opinion of the regional associations of small peoples of the North and representatives of the economic collectives of small peoples of the North, if the facilities being privatized are located actually in places of residence and economic activity of small peoples of the North.

### 6. Additional Methods of Privatization

6.1. In the course of privatization of enterprises in the traditional economic sphere of the peoples of the North (where the book value of fixed capital on 1 January 1992 was more than R1 million) by means of their becoming open-type joint-stock companies, all members of the labor collective are granted the right to receive free ordinary (voting) shares totaling up to 50 percent of the value of the authorized capital. These shares are distributed among members of the labor collective by decision of a meeting (conference) of the collective.

The other shares are distributed as follows:

- 29 percent—for sale at restricted-access check auctions, for which the procedure is determined by the Russian Federation Government;
- the remaining shares—for sale at auctions for money, among inhabitants of republics within the Russian Federation, krais, oblasts, or autonomous okrugs wholly or partially belonging to regions of the Far North. In this case, an enterprise workers' flotation fund is not formed.

6.2. In the course of privatization of enterprises in the traditional economic sphere of the peoples of the North (where the book value of fixed capital on 1 January 1992 was less than R1 million), a partnership formed from not

less than half the total number of workers is granted the right to acquire the enterprise at the residual book value within three months of approval of the enterprise privatization plan.

In the event that the enterprise workers refuse, privatization is effected at auction or on a competitive basis in line with Russian Federation legislation.

6.3. It is stipulated that when shares in enterprises in the petroleum and petroleum refining industry and petroleum products support services sphere are sold under privatization plans to the population of petroleum extraction regions who belong to the small peoples of the North and to members of the labor collectives of enterprises and associations for the transportation of petroleum and petroleum products at specialized restricted-access check auctions held in accordance with the Statute approved by the Russian Goskomimushchestvo, the said categories of citizens may be represented by specialized check investment funds which have accumulated their privatization checks. In this case, the said funds have a duty to prove to the vendors—the appropriate property funds or their representatives—that their stockholders (not counting the founders) are exclusively citizens in the abovementioned categories.

6.4. On the privatization of trade, public catering, and everyday services enterprises located in specified regions of the Far North and equivalent localities (in accordance with a list drawn up by the Russian Federation State Committee for the Social and Economic Development of the North and agreed with the Russian Goskomimushchestvo), by decision of the appropriate property management committees, it is permitted to sell them by tender under the following obligatory conditions: the level of sale of specific types of goods, operations, and services, taking into account existing demand, must be maintained for a period of three years; interruption of the operation of the privatized facility for more than two months following the sale and purchase and (or) for a total of six months in a calendar year is prohibited; reductions in the working hours of the privatized facility must be agreed with the local administration; and in addition, the buyer must meet one of the following conditions:

- prevention of a reduction in the volume of production (services);
- compliance with established ecological norms and restoration of environmental damage sustained;
- financing of the construction of nature conservation facilities and facilities in the social sphere;
- maintenance of the number of jobs, including the reservation of jobs for representatives of the small peoples of the North;
- investment, in the necessary volume, in the development of production.

6.5. The privatization of mothballed facilities and mothballed enterprises in the extraction industry is effected exclusively at investment competitions, for money, with a 50-percent discount, and with compliance with obligatory conditions for investments in nature conservation operations and in the demothballing of the enterprise within six months of the acquisition of the ownership title.

6.6. The privatization of enterprises deemed ecologically dangerous is effected solely by commercial or investment tender (for privatization checks prior to 1 July 1994 and for money after 1 July 1994), with the obligatory condition of investment in improving the ecological condition of the environment, in accordance with a list drawn up by the Russian Federation Ministry of Environment and Natural Resources and the Russian Federation State Committee for the Social and Economic Development of the North and approved by the Russian Goskomimushchestvo.

6.7. In the course of privatization of state and municipal enterprises located in regions of the Far North and equivalent localities, on the proposal of the labor collective and with the consent of local self-government organs, it is permitted to include in the property to be privatized social, cultural, and consumer facilities that are on the enterprise's books.

6.8. When airports of regional and local significance, transportation enterprises serving the Arctic zone of the Far North, seaports of regional and local significance, and other ports [portopunktov] become open-type joint-stock companies and the decision is adopted to retain a block of shares in state (municipal) ownership, the shares are transferred to the control of the organs of power of the components of the Russian Federation.

6.9. In the course of privatization of state and municipal enterprises located in regions of the Far North and equivalent localities, members of their labor collectives and persons of equivalent status enjoy the concessions stipulated in the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation, depending on the chosen method of privatization, plus the additional concessions defined in the present Program.

6.10. In determining the size of compensation payments to labor collectives which do not receive the ownership title on the basis of the results of tendering, the minimum monthly wage laid down by Russian Federation legislation is used, calculated per worker and taking into account the regional coefficient and percentage supplement to wages.

6.11. The right to concessionary acquisition of shares in open-type joint-stock companies formed on the basis of enterprises located in regions of the Far North and equivalent localities is extended to the enterprise's former workers who had worked at the privatized enterprise for a period of service of not less than five years for men and three years six months for women.

6.12. Labor collectives of enterprises where production is seasonal and which carry out primary processing of

agricultural raw materials, fish, and seafood, privatized in accordance with local programs, are granted a postponement of scheduled payments for privatized facilities during the period of the major influx of such raw material and the corresponding increase in circulating capital, until such time as accounts for the sale of output have been settled, but for not more than six months.

6.13. In the course of privatization of mining industry enterprises located in regions of the Far North and equivalent localities, the concessions stipulated by the present Program for members of their labor collectives are also extended to former workers at the said enterprises who worked there for at least five years for men and three years six months for women, irrespective of their place of residence, and to those members of prospecting artels leasing the property of the said enterprises who have worked there for at least five seasons.

6.14. If an enterprise is located outside the regions of the Far North and equivalent localities but carries out work on the basis of the expeditionary/duty tour method accounting for at least 75 percent of its total volume of operations (services), the concessions granted to collectives of enterprises located in regions of the Far North and equivalent localities are extended to the members of the said enterprise's collective. In the event that individual subsidiary components of an enterprise operate according to the expeditionary/duty tour method, the concessions stipulated for workers in regions of the Far North and equivalent localities are extended to the workers of such subsidiary components, provided that the subsidiary component in question acquires the status of a legal entity in the process of privatization of the enterprise. The said concessions are not extended to the enterprise's other subsidiary components.

## **7. Measures of Social Protection for the Population in the Process of Privatization**

7.1. Funds coming into the Federal Enterprise Support Fund may also be spent on granting one-time resettlement grants for persons traveling to regions of Russia where there is a manpower shortage or to the countryside in connection with the loss of their job.

7.2. In the event that the terms of privatization stipulate that a proportion of jobs be retained for the small peoples of the North, associations of the small peoples of the North are granted the right to monitor the conditions of hiring and employment of members of the small peoples of the North both at enterprises in their traditional economic sphere and at other enterprises located in the areas of residence and economic activity of the small peoples of the North.

## **8. Procedure for Mutual Relations Among State Organs Effecting Privatization**

8.1. In the course of the adoption of decisions on the privatization of state and municipal property in the areas of residence and economic activity of the small peoples of the North, account is taken of the opinion of



regional associations of small peoples of the North representing the interests of ethnic groups.

8.2. Russian Federation ministries and departments draw up and coordinate with the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures, and submit to the Russian Goskomimushchestvo, recommendations taking into account the peculiarities of enterprises located in regions of the Far North and equivalent localities in the course of privatization and of the exercise of the property owner's powers.

8.3. Where regional bodies effecting privatization (property management committees and property funds) located in regions of the Far North and equivalent localities have a financial deficit, the Russian Goskomimushchestvo and the Russian Federal Property Fund grant them financial assistance.

#### **9. Formation of Special-Purpose Financial Funds From Resources Obtained Through Privatization**

9.1. Financial resources obtained from privatization and becoming available to the corresponding local self-government organs, other than funds formed in accordance with the State Program for Privatization of State and Municipal Enterprises in the Russian Federation, are channeled into the formation of the following special-purpose funds for regions of the Far North and equivalent localities:

- a fund for the support of persons who have lost their jobs and wish to move to regions of Russia where there is a manpower shortage, or to engage in agricultural activity. The fund's resources are to be spent on paying for travel and resettlement of migrants;
- a fund for the implementation of nature conservation measures;
- a fund for the economic and cultural development of the small peoples of the Far North.

9.2. The procedure for the formation and expenditure of special-purpose funds and the amount of resources directed to the said purposes are determined by the Russian Federation Government.

#### **10. Requirements for Local Privatization Programs**

10.1. Local programs for the privatization of state and municipal enterprises located in regions of the Far North and equivalent localities are drawn up by the appropriate property management committees of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, cities (other than cities under rayon jurisdiction), and rayons (other than rayons within cities) and are adopted by the appropriate local self-government organs taking into account the opinions of associations of the small peoples of the North insofar as the environment in which they live and work is affected.

10.2. Local privatization programs must be drafted (redrafted) in accordance with the requirements of the

present Program and approved (reapproved) not later than one month after its publication. Local programs must be published in the press organs of the appropriate local self-government organs and submitted to the Russian Goskomimushchestvo.

#### **10.3. Local programs must:**

- not conflict with the State Program for Privatization of State and Municipal Enterprises in the Russian Federation or with the present Program;
- not include proposals for the privatization of enterprises that are not eligible for privatization or impose additional restrictions on the privatization of enterprises;
- include lists of specific enterprises (groups of enterprises) eligible for privatization, with special identification of enterprises located in areas of residence and economic activity of the small peoples of the North;
- include predictions of the funds to be obtained from privatization and the procedure and areas of their use;
- take account of the heterogeneous nature of the territory within administrative-territorial formations on the basis of natural and climatic parameters, their level of development, and their accessibility to transport;
- contain specific measures for demonopolization and the creation of a competitive environment by agreement with the appropriate territorial administrations of the Russian Federation State Committee for Antimonopoly Policy and Support for New Economic Structures; social protection for the population; support and development of enterprise; and protection of the environment, with the use of extrabudgetary funds and foreign investments for that purpose.

The property management committees of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, cities, and rayons (other than rayons within cities), with the consent of the appropriate organs of state power and administration of the Russian Federation and local self-government organs, may make amendments to republic and local privatization programs.

Monitoring of the fulfillment of local programs for the privatization of state and municipal enterprises located in regions of the Far North and equivalent localities is the responsibility of the Russian Goskomimushchestvo and the Russian Federation State Committee for Social and Economic Development of the North.

#### **Yeltsin's Edict on State Program for Privatization Viewed**

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[Article by Yelena Kotelnikova: "The President Legitimizes the Russian Federation Committee for the Administration of State Property's Policy: Privatization Program Is Approved"]

[Text] *The specifics of Russian denationalization, which is aimed simultaneously at creating millions of property owners and attracting major private investment in enterprises undergoing privatization, will remain as is. The evidence of that is the edict signed by President Boris Yeltsin on 24 December 1993, "On the State Program for the Privatization of State and Municipal Enterprises in the Russian Federation." As Deputy Prime Minister Anatoliy Chubays acknowledged, this document not only legitimizes the measures aimed at stimulating destatization of enterprises implemented by the Russian Federation Committee for the Administration of State Property [GKI], but also will ensure a "triumphal" completion of voucher-based privatization before 1 July 1994. It is obvious, however, that preserving a balance between social and economic interests in the post-privatization period will require additional regulatory measures, which will depend directly on how the political situation develops.*

The State Privatization Program approved by the president envisages resolution of tasks both social (forming a broad stratum of property owners via voucher-based privatization) and economic (increasing the effectiveness of the national economy by attracting investment into production). The ideologues of voucher-based privatization believe that the above factors will permit them to complete denationalization in the environment of national consensus. Therefore, in the destatization of enterprises, privatization bodies will continue to take into account the opinion of labor collectives. In addition, preferential treatment has been expanded for socially disadvantaged strata of the population (in particular, the disabled, pensioners, and military servicemen).

At the same time, given the continuing production decline and the absence of obvious advantages of denationalization carried out so far, the authors of the State Privatization Program—GKI specialists—built into the document the stimuli for a labor collective to choose such an option of preferences that will allow the most qualified specialists to be brought into managing the enterprise undergoing privatization. In the event that they fulfill their economic obligations, they will be able to become, on a preferential basis, the owners of the controlling share of stock.

In addition, the State Privatization Program formalized a score of presidential, government, and departmental measures that provide preferential terms for exchanging vouchers for stock of enterprises undergoing privatization at voucher auctions, as well as the activities of voucher investment funds in the primary stock market—through tax preferences, by removing restrictions on formation of the controlling share of stock, and so on. Also among other important parts of the new program is the fact that it regulates the relations between enterprises' stockholders and their administration—until now there were no legislative acts protecting the right of small stockholders, despite the fact that 55 million persons already have become stock owners. But the main item is that the new State Privatization Program permits the ideologues of voucher-based privatization to completely

control this process. Despite the fact that sectoral ministries have managed to expand the list of enterprises not subject to privatization from 30 to 36 percent, supply at the primary stock market may be increased through the stock of enterprises potentially facing bankruptcy. At the same time, the document formalizes the supremacy of the federal program over regional ones, giving it a de facto status of a direct-action federal law. Anatoliy Chubays believes that the inclusion of this provision shows that the president considers the position of Moscow Mayor Yuriy Luzhkov—one of the main opponents of the State Privatization Program and voucher-based privatization—unacceptable, and now local specifics will be taken into consideration in strict compliance with the state program. At the same time, the state program's authors built into it a number of measures aimed at stimulating privatization in the regions (in particular, the state program declares preferential financing for them).

At the same time, the state program formalizes the leading position of the GKI and the agencies it coordinates during the post-privatization period—first and foremost by attaching to privatization bodies the functions of development and implementation of enterprises' investment policy. This factor in the environment of investment shortage will enhance the GKI and its structures' influence on regions and enterprises. On the other hand, such a state of affairs will objectively contribute to strengthening the GKI's position in the government, which in the final count may result in neutralizing the current effective system of lobbying by sectoral ministries. It is possible that the GKI's desire to preserve its leading position in defining investment policy and protecting the emerging investment market from pressure on the part of the banking lobby (which so far has been successful in fending off implantation of foreign capital in their field) will turn out to be a decisive factor in limiting the banks' legal participation in privatization (until legal norms regulating activities of investment banks are introduced). At the same time, the State Privatization Program envisages especially favorable treatment for foreign investors regardless of their legal status. Apparently, this approach is meant to compensate for the risk that investing in the Russian economy entails. However, despite the proclaimed loyalty to foreign investors, the main active subjects in the investment market still will be specialized (voucher) investment funds, whose dominant position is the result not only of their social status but also of skilled cadres.

[Box, page 3]

#### Anatoliy Chubays on the Results of Privatization in 1993

—*Political:* There is no political force that could stop privatization in Russia.

—*Economic:* About one-half of Russian enterprises are in private ownership; among them, of 14,000 large



enterprises subject to privatization 11,000 have become joint-stock companies.

- Social:* Of 110 million Russians who have utilized their vouchers, 55 million became stockholders; 600 to 800 voucher-based auctions are taking place every month. [End of box]

[Box, page 3]

#### **Measures To Stimulate Foreign Investment**

- Legalization of foreign investors' participation (both physical and legal persons) in voucher auctions.
- Authorization to sell an enterprise to a foreign investor in the event that he is the only participant in an auction, bid, or investment bid.
- Enabling foreign investors (on the basis of a government decision) to participate in the privatization of facilities and enterprises in the military-industrial and fuels and power generation complexes, as well as those engaged in mining and processing of strategic materials, precious metals, and stones. [End box]

[Box, page 3]

#### **Anticipated Revenue From the Implementation of the State Privatization Program in 1994 And Its Distribution**

- The total amount of revenue generated by privatization in 1994 is estimated to be 0.7 trillion rubles [R] in privatization vouchers and R0.8 trillion.
- The value of dividends paid on the stock reserved in federal and state ownership in 1994 will amount to an estimated R200 billion.
- The government has the right to modify the indicators and the norms of distribution of revenue received from privatization upon taking into consideration the state of Russia's financial system, the state of the property market, and proposals submitted by appropriate privatization bodies.
- Revenue from privatization in the budgets at all levels must be directed at maintenance of social and household-oriented objects and financing of post-privatization support of enterprises.



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